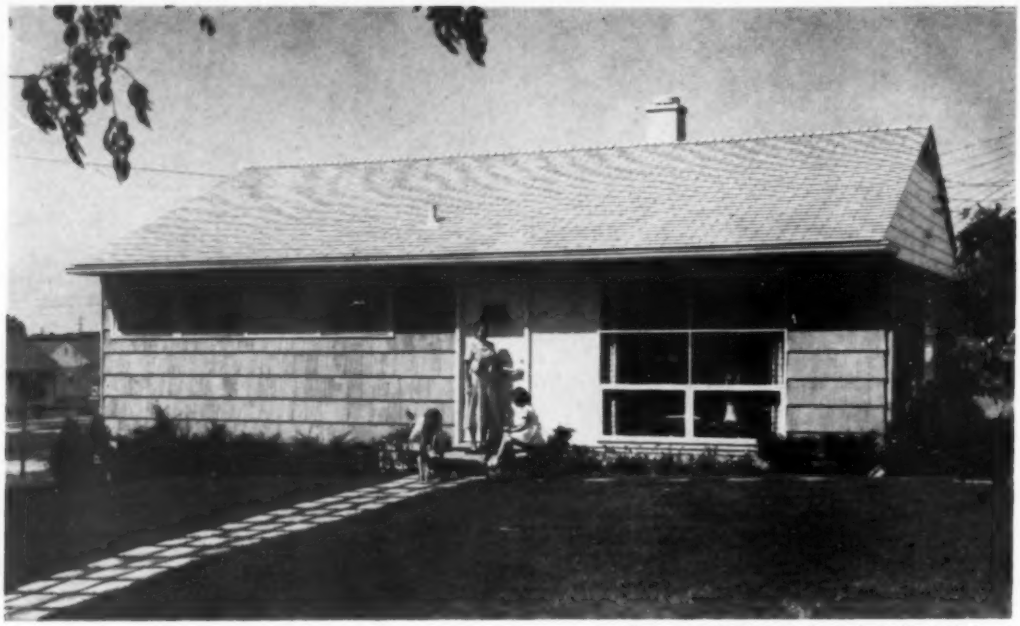
JUNE 1953

The Mortgage Banker

EISENHOWER . . . HOLLYDAY . . . TRUMAN

in this issue - - - - - - - - HARD MONEY AND WHAT IT MEANS FOR THE MORTGAGE LOAN FIELD



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—*as reported in* **house+home,** *April 1953*

In one of the country's toughest markets—Cincinnati—the best-selling houses are Nationals built by Ohio Homes, Inc. And the next best sellers are also Nationals, erected by Runck & McClure. So says an article in the April issue of *House & Home* entitled "The Fastest Selling Houses in the USA."

Quoting from This Article:

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MBA Calendar

June 22-26, 1953, Sixth Annual Mortgage Banking Seminar, Northwestern University, Chicago.

June 29-July 3, 1953, Third Annual Advanced Mortgage Banking Seminar, Northwestern University, Chicago.

August 17-21, 1953, Second Western Mortgage Banking Seminar, Stanford University, Stanford, Calif.

November 9-13, 1953, 40th Annual Convention, Miami Beach.

January, 1954, Senior Executives Course, New York University, New York.

February 25-26, 1954, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago.

April 12-13, 1954, Eastern Mortgage Conference, Commodore Hotel, New York.

THE MONTH'S COVER

The picture on the cover isn't a gag—*The Mortgage Banker* is far too dignified for a gag. The people you see are correctly identified: A. B. Eisenhower, executive vice president of the Commerce Trust Company in Kansas City and brother of you know who; FHA Commissioner Guy T. O. Hollyday; and J. Vivian Truman, director of the FHA Kansas City office and brother of you also know who. The idea of a picture of the new FHA Commissioner between two such famous names occurred to someone at the luncheon which J. C. Taylor, chairman of the board of the J. C. Nichols Company, Kansas City, gave for Mr. Hollyday at the time of MBA's Clinic there. Result: the shot you see . . . Eisenhower, Hollyday and Truman.

The Mortgage Banker

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PUBLISHED MONTHLY BY THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

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Volume 13 **JUNE, 1953** **Number 9**

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What Lenders and Investors Think of FHA and VA Prospects

NOW what happens? Where do we go from here in VA and FHA? If the rate hikes had come three months before they did, there might have been little reason to ask these questions; but, when they finally materialized, other developments with a vital bearing on what will happen to the VA and FHA markets were occurring right and left. So, when THE MORTGAGE BANKER set out to survey opinion among investors and lenders shortly after the raises were announced, the one thing that was definitely not anticipated was that few if any would *not* know what the effect of the higher rates would be.

What do the higher FHA and VA rates mean for a normal functioning of these programs, for investors in their portfolio buying, for veterans in their search for financing? Our queries coast to coast might be summarized something like this:

» There is a cautious, watchful waiting attitude with investors, seemingly hesitant to step back into the market again. They want to see how "the markets settle." You're asking questions "too early," they told us. Maybe in 30, 60 or 90 days I might be able to tell you something, others said. This is going to be a good thing but I cant tell you how soon there will be evidence of it, still another said. To sum up: too early to know.

» Investors have heavy commitments. No exact figures are available on that but it is a recognized fact. They're as heavy today as they were in March, 1951, one authority flatly stated at the San Francisco Clinic. During these last two years the prediction that "when the commitments are worked off" investors will be back hasn't materialized in the way it was anticipated. Money is tight all over and there just isn't enough to supply the demand, to meet all the needs. Thus, with so much money staked out for this purpose and that, no rush, no flood of mortgage money could be expected into the FHA and VA programs.

» Lenders expressed considerable disappointment at the attitude of investors in meeting the challenge of the rate increases. Many told THE MORTGAGE BANKER that it was a disappointing thing to see investors continuing to expect that they could go right on dealing in the FHA and VA programs on the same discount basis, even though at a little higher level. Other lenders confidently expressed the hope that principals would announce their policies and programs soon but few, at the stage of our inquiry, knew anything of what investors might actually do in these markets.

» Disturbing was the view which so many set forth—we protested the unrealistic FHA and VA rates, we demanded that they be brought into line with the market, we advanced every argument for doing these things. All right, the increases have been made—what now if the loans aren't made, if investors don't buy them, if veterans don't have ready access to home financing? What will government say, what will congress say? Will some sort of vastly increased direct lending be demanded?

This thought was uppermost in the minds of lenders everywhere — and they were worried and disturbed. All knew that in the two months prior to the increases the general money market had seen a terrific rise, principally resulting from the 3¼ per cent long-term government financing; but our problem remained and President Whatley has something to say about that in his message to the members in this issue.

» Encouraging to see was the average mortgage lender's feeling of responsibility in this situation. It was plain from the answers to our queries that they realized the serious aspect of the problem we face now. They want to see the VA market functioning again in a normal manner and are grouping for ways to make it happen. But might they be their own worst enemy in one respect at least: namely, in placidly accepting a continuation of a discount market?

So, let's see what others say in this round-up of opinions that would give us a clue as to what to look for in FHA and VA—an attempt, it must be admitted, that may have been made just a little too early. Here is what some investors and lenders told us:

Investor Viewpoint; Commitments Still Heavy

In the opinion of **P. S. Bower,** assistant general manager and treasurer, The Great-West Life Assurance Company, Winnipeg, Canada:

"I feel the Administration has not fully recognized the change in market for VA and FHA loans. Recent sharp interest rate adjustments, particularly in bond market, does not enhance relative attractiveness of VA and FHA mortgages even at 4½ per cent. My opinion is that the recent adoption of 4½ per cent rate will not prove a great stimulus to this type financing."

W. A. Turnipseed, mortgage loan officer, Liberty National Life Insurance Company, sees no rush of investors to FHAs and VAs and the question of the 2¾ per cent FHA debentures disturbs him.

"Whether or not there is a par market for these loans at 4½ per cent

will depend on the supply of and demand for money for all types of investment and the yield available in other fields. At the present time, good corporate issues are coming on the market to yield about 4 per cent. Many large direct loans are being made at higher rates. The new government 30 year bonds at 3¼ per cent have been selling slightly under par. As long as this trend continues and there is a sufficient demand for funds from these sources, I do not see any possibility of a par market on a national scale for VA and FHA 4½ per cent loans. After deducting the servicing agent's fee this gives the investor a return of 4 per cent from which must be deducted home office expense and servicing costs and possible losses.

"There is another very disturbing factor from the investor's view of FHA loans. In the event of foreclosure he receives long term 2¾ per cent debentures. Anyway you figure it the investor would sustain a loss if he acquired such debentures on the present market. If he should sell them, it would have to be at considerably under par to compete with the new government bonds. If he held them then he would be receiving a much lower yield than could be obtained on other comparable investments.

"If a market does develop where ample funds are available for VA and FHA financing, I am afraid it will stimulate over-building to the detriment of all unless lenders require reasonable cash payments and amortization periods. I think it is unfortunate at this time when we are still trying to hold the line on inflation that the VA regulations now permit 30 year loans with no down payment and FHA terms have been liberalized. There are no controls now other than FHA regulations and the supply and demand of funds and the willingness to lend them to keep us from overbuilding in many areas."

Sees More Money Available for Mortgage Loans

And says **George C. Johnson,** president of Brooklyn's big Dime Savings Bank:

"I think the rate increases will undoubtedly cause an increase in the amount of money available for mortgages. The size of this increase will be tempered somewhat by the fact that many banks and insurance companies are near their goal for the ratio of mortgage investments to total assets and also by the increasing attractiveness of bond investments at their new rates. The situation is not likely to stimulate any over building. I do not look for any reappearance of premiums. In fact, I think a par market is about the most that can be hoped for."

The treasurer of another large savings bank in the East says his institution will sit it out for a while.

"The market is so completely confused that we have concluded to sit on the sidelines for a month or so until we can see the picture a little more clearly," he said. "Obviously the underlying difficulty is the condition of the government bond market. Except for the changes that are taking place in that market, I think the higher rate should have produced a fair market in this area.

"For the limited amount of mortgage money which remains in our institutions, our people are talking at present in terms of 97½ to 98 for 4½ 501's and 99 to 99½ for 4½ 203's. In fact on all prior commitments where the rate is being raised, we are paying in general about a point more for the VA paper and ½ point more for the FHA paper. The tremendous pressure of municipal and corporate bonds is not helping the mortgage picture."

The mortgage loan officer for one of the leading life companies sees nothing doing with his firm for a while.

"Our company is quite heavily committed for mortgage loans and until our outstanding commitments are substantially reduced, we will not be in the market in any big way for mortgage loans. This may take another sixty days until our outstanding commitments are reduced as the schedule for mortgage loan deliveries for May and June is quite heavy.

"We are hopeful that the market for FHA and VA loans will have stabilized by the time we are ready to return to the active purchase of mortgages, and from what we have been able to determine up to this time it is very possible that the market will settle down to a par basis before too long."

From an officer of one of the Middle West's large banks:

"I believe that the FHA and veterans market is particularly localized, and conditions prevailing in one section of the country do not necessarily hold for other areas. Our urban real estate debt is historically high, and in some areas, I believe that we have had some overbuilding.

"I believe that the increase in interest rates will stimulate FHA and veterans loans as the demand for investment will probably not be filled by conventional financing. Investors who maintain a balanced portfolio are not likely to unbalance their portfolios to obtain these investments."

An officer of another life company sums it up like this:

"The long delayed increase in the interest rate for these loans has come at a time when the institutional investor is being pressed for available investment funds by the corporate bond market. As long as quality corporate bonds are available at 4 per cent or better, there is little inclination to make mortgage loans at a gross 4½ per cent rate of interest, subject to a correspondent's servicing fee. Obviously, the home office overhead costs for mortgage loans are substantially in excess of costs incident to a bond portfolio.

"I do believe that VA and FHA interest increases will make funds available for the financing of future homes when such funds are generated by local institutions. In other words, a 4½ per cent rate of interest is currently satisfactory for direct mortgage loans which are not subject to a correspondent's service fee. It is my opinion, that the savings banks, building and loan associations and a modest contribution from life insurance companies will offer FHA and VA financing in the areas serviced by the respective institutions. I do not believe that there will be a universal demand for this type investment as long as the current tight money market exists with its correspondingly favorable rates of interest available from corporate securities."

It's really too early for a definite

opinion but expressing his own view —not necessarily that of his institution—**Frederick C. Smith,** vice president and mortgage officer of The Bowery Savings Bank, New York, said:

"I do not see a par market at this time except possibly where institutions are buying in very small amounts. I think this is expressed by the fact that the 4 per cent G.I.'s and 4¼ per cent FHA's now held in warehouse and in other funds where they are not a part of the permanent investment, are being offered at such attractive prices that they will more or less reflect a comparative yield in the new 4½'s. I do not see any great rush of money into the market as a result of the 4½'s. This may be because the active mortgage lending institutions are up to the limit of their portfolio percentages and only have the new money coming into their organizations together with portfolio replacement funds to invest. If mortgage money continues to be tight—and my own personal opinion is that it will remain even tighter for quite some time—I cannot see how it would tend to stimulate overbuilding.

"Regarding the increased interest rate, I think the only way we are going to get the USA back on a proper business footing is to make it possible for those with capital to invest in secure investments at a rate which means something."

Reactions from Far Western and Southern Areas

Too early yet to know which way the wind will blow, thinks **Carton S. Stallard,** vice president, Jersey Mortgage Company, Elizabeth, N. J. He said:

"Most portfolio buyers are sitting back, waiting to see what the general rate structure is going to be throughout the United States. With the hard money policy of the government, no one knows how high the yields may go. The New York savings banks appear to have ample funds and although a good many of the insurance companies also appear to have ample funds, they are following rather a restricted policy in respect of new investments. It looks very much as if the log jam in respect to the flow of mortgage money will eventually be broken, but I think it is going to be a gradual procedure.

"I don't believe that the interest has been increased to a point sufficiently high to stimulate over-building at this time. It certainly would seem to me that FHA and VA are definitely back in business, but it is too early to tell to what extent."

From the Far West—where the abnormal market conditions have been particularly acute—comes an opinion not too favorable. Said one lender:

"We have had no indication that the log-jam in the FHA-VA market has been relieved. Prices from those to whom we usually make sales are turning up at about the same figure for the 4½'s as they were for the lower rate loans. It may be too early to see what the effect will be, but I believe that in the Western area we are in for a good deal of trouble and continuance of the discount market."

From the South, from **Floyd R. Kimbrough,** president, Kimbrough Investment Company, Jackson, Miss., comes this viewpoint:

"It looks to me as though investors want to have their cake and eat it too. Since the interest rate has been increased to 4½ per cent on both FHA and VAs, we have had offers at 97½, 98½, and par. Most of the investors we have talked with have an attitude to wait thirty or sixty days and see where the market is going to settle. Things don't look so good for a big building program under the distressed mortgage conditions. Other mortgage bankers express a similar experience in this area."

A prominent Far Western member sizes up the present and future in this way?

"At present there is a market for a very limited volume of FHA's or VA's at par. The majority of the investors who are taking mortgages for their own account are requiring payment by the borrower of the allowable fees. Those offices who are making mortgages for sale to institutional investors almost without exception are on a limited quota at par, with prices beyond the quota at something of a discount.

"With the requirements being made as to down payments it would appear that there is going to be little stimulation toward over-building.

"There has been expression in some quarters that the increase, particularly as far as FHA is concerned, is 'too little and too late.'

"It would appear that any substantial volume of business is going to have to depend on the conventional mortgage at a minimum rate of 5 per cent."

No Over Building Is Seen as Result of Raises

And from a prominent Southern lender, comes this opinion:

"Some added impetus will undoubtedly be given to residential construction, with a probable drift toward investors taking these loans on or about par with modest down payment, with some 100 per cent loans on possible quota basis. Undoubtedly, this increase will bring additional mortgage funds into our general market."

Back to the Middle West and to **E. R. Haley,** president, General Mortgage Corporation, Des Moines, who says:

"The increase in FHA and GI interest rates has not in this area resulted in opening up the market. For those investors who are still accepting a limited amount of FHA and GI loans, it has produced a more favorable sales basis for the mortgage banker. The market at this early date appears to be from par, 99½, and 99 with ½ per cent servicing. Most of the principals contacted have in no way given indication of increased mortgage portfolios.

"Savings and loan institutions and banks who previously made FHA and GI loans have now come back into the market in a limited way. Their policy now seems to be 'we will take a few now that the rate is increased but the door isn't open.' Practically all are requiring substantial down payments on GI loans. Where before a small down payment was required on GI loans, 10 to 20 per cent is now required.

"Summing up, I would say that in this district more money is available

but in no sense the amount that was anticipated sixty days ago when we hoped for the increased rate."

From one of the Mountain States' largest cities comes this summary:

"The most constructive thing that has come from the 4½ per cent is the lifting of uncertainty from the minds of builders, investors and brokers. The announcement has not resulted in any par market in this part of the country. One of the major insurance companies has given its correspondents a very limited amount of VA money at par. However, the amount is so small that it cannot be indicative of the general situation.

"This small amount of GI money is the only real indication that the log jam has been broken. Most principals have indicated a 'wait and see' attitude, and have made no specific announcements to any of their correspondents or brokers in this area. It is our impression that they are keeping a close watch on the bond market. It would be our guess that a market on both FHAs and VAs could be established here at approximately 98½.

"There is absolutely no indication in this territory that the new rates would result in over building. This might possibly follow after the principals in this market have made a more definite statement of their attitude in these investments.

"There are indications that the savings and loans out here are going to get into this market now at par on existing construction. Presently they are requiring 15 per cent as a down payment and are making the loan for a period of only 15 years. One of these savings and loans has made an announcement of approximately $2,000,000 to $4,000,000 as available on these terms. It is expected that several others will follow on these terms or some that are a little more liberal."

Says **Warren Stringer** of Dunn & Stringer Investment Company, Milwaukee:

"It is too early to tell. As of now we can sell VA and FHAs at par to one of our principals and at 99 to another. Two or three of the other principals have not advised us what their mortgage purchasing program will be. Yes, the rate will stimulate some building but it will not be the cure-all that many expected that it would be."

The Market Has Hard Time "Getting Settled"

First reaction from the increased rates has been disappointing, in the opinion of **Walter C. Nelson**, president, Eberhardt Company, Minneapolis:

"To date the response from investors to the change in interest rate of GI and FHA loans to 4½ per cent has been disappointing. Undoubtedly this is because other investments have a rate of return that is equally or more attractive.

"Many of the companies have withdrawn completely from the FHA and GI loan market. The change in interest rate has not brought any of those companies back.

"Many insurance companies have had their correspondents on an allocation basis with the allocation being only a small amount of the potential volume available. It seems that none of the companies has changed that allocation up to this time, nor in most instances changed the price that they will pay for the loan.

"We find that FHA loans are being sold at 99 and at par. VA loans are being sold at 98½ to par.

"Currently the market on FHA and VA loans is being met primarily by the local banks and savings and loan associations. Were it not for the local institutions there would be an extreme shortage of available funds for both types of loans. The current practice among savings and loan associations is to charge the veteran 1 per cent to make the loan and generally charge the real estate broker 1 to 1½ points for making the VA loan. This is the same practice as was being followed when the rate was 4 per cent.

"There is a trend noticeable at present for eliminating of 4½ per cent conventional loans with increase in rate from 4¾ to 5 per cent. Approximately half of the outside investors have stopped making 4½ per cent loans and there is a question as to how long they will be available locally."

From Oklahoma and from **Albert Mager**, president, Mager Mortgage Company, Oklahoma City, comes this analysis:

"It is a little too soon to know just what the market for VAs and FHAs at 4½ per cent will be. My own opinion is that in many cases they will sell at 99. Where the borrower is in a position to pay from 10 to 20 per cent down, they will sell at par to some investors. Many of the investors are over committed, and some of ours have informed us that it will be 30 days or more before they can formulate definite policies on the new 4½ per cent loans.

"The increase in the rates will help to market the loans; however, until the present unprecedented demand for funds all over the country is taken care of, there will only be a limited market for FHA and VA loans.

"The higher interest rates will not stimulate over building. Banks financing builders are inclined to be more conservative. We are now in a buyer's market for homes. We do not have a housing shortage in Oklahoma City and Tulsa, and I believe this is true in many cities.

"My own impression is that the increase of interest rates, at this time, puts us in a much more favorable position. Our real problem is the tremendous demand for funds. There just isn't enough money to go around.

"I believe that within a period of 3 to 6 months, or not later than January 1, 1953, there will be a ready market for both VA and FHA loans at par with one-half servicing to the servicer.

"Things may happen in the meantime that would change the entire picture. We must realize that for 15 or 20 years we have been in an inflationary period. We have had a change of administration in Washington. The policy of the new administration is to stop inflation through credit controls wherever possible, and to restore sound value to our money. With valuations of all commodities the highest in many years, and with many people a little jittery, the administration could start a mild recession by putting on the brakes a little too hard."

From Atlanta, comes this report:

"No one in our City has been inundated by the 'flood' of GI money some said there would be if the rates were raised. Some few principals

have returned to the market at prices ranging from 99 to par but in each instance the correspondents were given very limited quotas. Sales have been a little slower than usual and there has been no noticeable increase in starts since the raise took effect due partly to the fair inventory of houses on the market and the continued uncertainty of permanent financing."

Cutting across to Birmingham, here is the viewpoint of a lender there:

"While it is probably too early to formulate a definite opinion as to the effect of the change in the FHA and VA interest rates, the reaction received up to the present has not been at all favorable. Investors to whom very desirable groups of loans carrying revised interest rates have been offered expressed an interest in the offerings only on a substantial discount basis. Unless the present trend is reversed it is still going to be difficult for builders and purchasers to secure adequate financing on a reasonable basis and mortgage funds will not be available in amounts required for a normal construction and sales program.

"The greatest majority of the insurance companies have not as yet made any announcement as to their policy for the purchase of government insured loans. These announcements, if and when made, will have a very definite effect as to whether or not there will be a ready market and if so on what basis. Naturally we hope for a par market but it seems that this depends on the life insurance companies making adequate funds available at par."

Disappointed at Investor Attitude on Discounts

Look for a par market for FHAs and VAs in the Philadelphia area eventually, says **Russell C. Rosenfelt,** executive vice president, Peoples Bond & Mortgage Company, Philadelphia:

"I fully expect a par market in the Philadelphia metropolitan area for FHA and VA 4½s. At the present time I feel that a lot of the large saving fund investors are shadow-boxing in order that the market may be firmly established price-wise. I feel that these sources have been so accustomed to purchasing FHAs and VAs at a discount that they are reluctant to pay par even though the yield may be satisfactory. Large life insurance companies have already indicated their willingness to purchase these loans at par under a quota system with certain requirements as to down payments. I believe the saving funds will follow this lead within a short time. I am also of the opinion that the market will open up very shortly although one must not lose sight of the large number of distress loans over-hanging the market as well as any future action that may be taken by FNMA to dispose of their present holdings. In summation, it is my considered opinion that new construction will be stimulated as a result of the increase in interest rates and that future prospects look very good despite the fact that the immediate outlook may be somewhat clouded or confused."

Still too early to form any definite conclusions, says this Los Angeles lender:

"The finance committees of many lending institutions are still studying the situation and have not announced their new programs. Locally, there has been no indication of any quantity of funds seeking FHA and VA investments at par, although there is a feeling that the market may eventually firm up to a point where investors will find such investments attractive without a discount.

"From the standpoint of yield, VA and FHA loans, even with this latest increase in the interest rate, suffer somewhat by comparison with other types of investments available to financial institutions. Insofar as the Southern California territory is concerned, there appears to be no immediate danger of overbuilding, even though these higher interest rates should stimulate additional new construction. Even if the log-jam may have been broken, the growth factor we enjoy in this territory minimizes the danger of our housing supply becoming greatly in excess of the demand."

A Washington, D. C. mortgage banker is not pleased with the initial reaction. He said:

"The reaction to the increased interest rates has been rather disappointing to us in the Washington area. All of the companies that have been contacted by men in our office have indicated that they would be interested only in purchasing VA loans at a discount up to two per cent at the new rate. I do not anticipate any difficulty in selling FHAs at par.

"Frankly, I believe the lenders, that is, the savings banks and the insurance companies, are making a grave mistake in not fully cooperating by purchasing VAs at par. I do not believe they actually could expect the government to approve a higher rate than 4½ per cent at the present time and it will cause terrific problems if they insist upon buying the loans at a discount. It is imperative that all originators strive to hold the market to par, not give in to the discount, unless, of course, where we are in a 'jam.' After all, we are only middle men and must comply somewhat to the demands of both the builders and lenders.

"I don't believe the higher rates will stimulate over-building as the money just is not available for any more building than is going on at present.

"I feel that if all of us play this game right, eventually the market will straighten out and will revert to par to the savings bank or insurance company investor."

Now down to New Orleans and to **Wilfred G. Gehr** of the Wilfred G. Gehr Company who reports his views like this:

"A few of the larger institutional investors are in the market for FHA and VA 4½ per cent home loans at a price from 99 to par, but the market is very selective and not too strong. I observed very few of the middle size and smaller institutional investors are in the market at all.

"The increase in interest rates on the FHA 4½ per cent was not in keeping with the increase in the new 3¼ per cent Federal bonds. In view of this situation the FHA interest rate should have been raised to 4¾ per cent. I do not believe that the high interest rates even if FHA went to 4¾ per cent would stimulate over-building. However, if the government's next new bond issue should

come out at a three per cent rate, this action would stabilize the FHA mortgage.

"The recent raise in the interest rate I think came too late to stimulate the usual Spring building program. In our area new building construction is less than ever before and there are more homes on the market for sale than usual at this time of the year."

From **Frank E. Hayward** of Coldwell, Banker & Company, San Francisco:

"Specifically, there is no market for insured loans in the Bay area as of today. I find that the lending institutions here are loaned up, not investing in insured loans at all, or are waiting 'to see at what level the insured loan market will be established.'

"Several Eastern institutions have notified correspondents in this area that they will purchase insured loans at prices varying from ninety-seven to one hundred, depending on term. However, no volume of funds seems to have yet been allocated to these correspondents to develop any volume of business on this basis."

From a Los Angeles lender:

"The increases in FHA and VA rates will bring about a par market only for loans on properties in choice locations and where purchase involves not less than 5 per cent or 10 per cent down-payment in addition to impounds. The log-jam has been broken not so much by the increased rate itself but by the termination of uncertainty. However, even so, the market will 'open up' to a lesser extent than might have been anticipated. Several principals who were bidding 95, 96, 97 are now talking 98 and 99. The higher rates will tend to stimulate some over-building, especially in sub-standard areas, unless the lenders are discriminating. The tendency to over-build will be stimulated as much by the elimination of down-payment and extension of term. This will tend to bring marginal buyers into a market already tending, at least temporarily, to be a bit top-heavy.

"The fact that increases have been definitely decided upon will make FHA and VA loans attractive for immediate commitments by major lenders, but general business conditions seem to be dictating a prudent degree of caution.

"The day-to-day situation, as indicated by our applications, is that regardless of record production figures, there is still a very firm demand by the general public for better housing at reasonable rates, which, in the long-run, will tend to absorb any over-building."

Surveying the Kansas City area and opinion, **Dale M. Thompson,** president, City Bond and Mortgage Company, said:

"Lenders in the Kansas City area appear to be in no great rush to expand their FHA and GI loans at the new rates. The discounts of ½ per cent to 1 per cent at which the new loans are selling indicate that the rates still are too low. However the lack of eagerness for these loans appears to be not solely a matter of rate but also a surfeit of investment opportunities which makes it possible for lenders to be more selective. I see no danger that the higher rates will stimulate over-building nor lead to a revival of easy mortgage credit. It is my guess that there will be a gradual thawing of the FHA and GI markets but on a pretty selective basis."

The generally tight money market may mean that the FHA and VA increases are too little and too late, says **Leslie M. Steele,** executive vice president, Underwood Mortgage & Title Co., Irvington, N. J.

"While there is some confusion existing since the increase in interest rate on both VA and FHA mortgage loans, there is no doubt in my mind that this increase is what was needed to stabilize the mortgage industry.

"The secondary market in this area is now gradually settling down to a price between 98 and 100 depending upon whether the loan is 30 years with no down-payment or 25 years with at least 5 per cent down.

"Most investors are demanding a higher yield since the interest rate was increased; however, only time will tell whether the demand will tend to defeat this, inasmuch as residential sales are not as abundant as they were in 1952. To sum up, the prevailing tight money market almost makes the increase in interest too little and too late."

From an Oakland, Calif. member:

"We find the VA and FHA markets here absolutely dead. Some banks are not making them at all, but a few are making them on case basis. We have only one correspondent interested in either FHA or VA loans and then only if at a discount of ½ of 1 per cent, no tract deals, case basis only.

"The 'log-jam' has not been broken. It is our opinion that the rise in rates on VA and FHA loans is so late in coming that the relative position of these two types of loans to conventional loans is approximately the same as it was a year to eighteen months ago."

Said **Donald E. Nettleton,** The Lomas & Nettleton Company, New Haven:

"Our local savings banks lending directly have, in general, been taking care of the GI and FHA market even when the rates were at 4 per cent and 4¼ per cent respectively. They have been doing this at a par market with no charges to the builder or borrower. It appears that they will go along with the same procedure now but at the 4½ per cent rate.

"The insurance companies have not demonstrated as yet any clear cut policy as to what they will do in Connecticut with VA and FHA loans.

Said **Lon Worth Crow, Jr.,** Lon Worth Crow Company, Miami:

"The increased interest rates will afford little relief to the present unattractive yield of these mortgages. Although there will be a limited market in this area for individual loans at par, it is believed that block loans will not command a higher price than 98½-99. In comparison to the current going rate of conventional loans of 5-5½ per cent, such a price is justified. The presence of a great volume of unabsorbed 4 per cent VA loans, which undoubtedly will be on the market at distressed prices, will materially affect the over-all market for both FHA and VA loans. Accordingly, I must reluctantly admit to no visible signs of a strengthening of the VA and FHA 4½ per cent market within the immediate future."

Certainly there has been no "flood" of money into the mortgage markets—and flood was exactly the word some well-informed people were using to

describe what we might expect if the interest rates were raised.

Was it a case of too little and too late? Few could argue that it was too little as far as VA went because there were just about as many who expected a quarter of 1 per cent increase as there were those who expected a half; but it could be a question of too late. Actually, if the increases had come two months before, it would have been a different story. For just as the Treasury-Federal Reserve "accord" marked a turning point in monetary history, so did the 3¼ per cent government bond represent an equally vital development in our financial economy. Events in the money markets rarely, if ever, moved as fast as they did when the Treasury announced its new long term financing. How quickly and how deeply the changes came were dramatically reflected in the bond market where actual conditions could be viewed much easier than in the mortgage field. To illustrate, a leading southern power company with excellent credit rating went to market in mid May for funds to finance additional construction. On a competitive bid its bonds were retailed at 102.172, yielding investors 4 per cent. Two months before it could have sold the issue on a 3½ per cent basis—and now additional interest of $2,700,000 will be added over the life of the bonds. Another utility had the same experience with a 3⅞ per cent bond. Two months earlier it would have done the job at 3½ per cent and over the 35 year maturity could have saved over $5,000,000. Similar situations have been legion in recent weeks and some borrowers have had to reduce the amounts they wanted for expansion, while others, with less favorable credit ratings and faced with interest rates of 5¾ per cent and 6 per cent have simply called the whole thing off.

One key to the situation as far as the mortgage industry goes is that the buyers of loans are rather heavily committed.

"We've never been so short of funds in the twenty years I have been with the company," said a vice president of one of the large insurance companies. All sorts of borrowers who have been looking to the insurance companies for long-term financing find that their source of funds is drying up. The poorer credit risks are finding their search for financing exceedingly difficult and even the best risks are finding it tough.

Insurance companies were heavily committed for mortgages in March, 1951, and, as was confidently expected, as soon as the commitments were worked off they would be back in the market. Actually these optimistic prophecies of two years ago never fully materialized in the way most people thought they would. The plain fact is that the supply of money for loans and investments just hasn't kept

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The Higher Cost of Money *and* WHAT IT MEANS *for* BUSINESS AND MORTGAGE LENDING

THIS nation has experienced an unprecedented long period of high business activity and prosperity. National income has increased steadily for more than ten years with only two minor interruptions, in 1945 at the end of World War II and in 1949 prior to the start of the Korean conflict. There have been numerous readjustments within particular industries but these have been of little consequence in the overall economic picture since high consumer income has been sufficient to keep up the general level of demand to a point where production and national income continued on to new peaks after each of these brief periods of hesitation.

With this long stretch of prosperity behind us there is a presumption at least that we might be facing a period of readjustment if not recession. Many business analysts have predicted that such readjustments should have occurred before now; and with the prospective leveling off of national defense expenditures, there seems to be a preponderance of informed opinion that there will be some decline in business activity and industrial production either the latter part of this year or during 1954.

There is considerable ground for this position. Capital expenditures of business and industry have been at record levels for several years and such tremendous annual additions to plant and equipment by American industry would appear likely to taper off and decline. Basic commodity prices have been tending downward now for over two years and farm prices in particular would have declined further had it not been for the government support programs that have maintained farm prices at artificially high levels. There has been weakness in prices of many industrial products also. The basic commodity index of industrial materials, for example, has dropped from nearly 160 at the beginning of 1951 to less than 95 today. The base of this index is average prices from 1947 to 1949.

The construction industry has been operating at an extremely high level for several years. Residential building with over a million new housing starts a year is at a rate which many people do not think can be maintained, particularly in view of the tightening of money in the mortgage market and the reduced level of family formations. The automobile industry, agricultural equipment industry and other important durable goods industries are running into sales resistance from consumers and current high levels of production in these lines appear in question.

The prospect of a truce in Korea with a curtailment in the national defense program coming on top of this background might easily produce an economic setback of considerable magnitude. The action of the stock market during recent months reflects the general feeling of uncertainty about the future.

The big question is whether we can make necessary adjustments to a new situation without experiencing a decline in general overall demand

By HENRY H. EDMISTON

Vice President, Kansas City Life Insurance Company

that might become cumulative in its effect upon employment, income and general business activity.

My own hunch is that areas of the economy other than defense expenditures will not turn out to be as bearish as some analysts are predicting. Consumer buying, as evidenced by retail sales, has been holding up quite well this year. Automobile sales have exceeded general expectations and sales of other durable goods have been surprisingly high. With recent firming of prices of most industrial materials there seems to be little disposition by business and industry to reduce inventories. The sale of new homes, although somewhat slower than a year ago, still is satisfactory and we should have at least a million new starts of residential construction again this year.

According to a recent survey by the S.E.C. and the Department of Commerce, outlays by business for new plant and equipment in 1953 will total $27 billion. This is more than we had in 1952 and reflects some carry-over of projects whose completion was delayed by the steel strike of last year. American business as a whole has many well-thought-out plans for expansion extending over several years and these programs will be put into effect so long as we do not get a significant downturn in general business activity. Continued high volume of capital expenditures will of course be a major factor in sustaining a high level of general business activity. Construction programs of state and local bodies should continue upward at least during the next year or so, as there is a pressing need in nearly every community for virtually all types of public improvements, including schools, streets, bridges, roads and utilities of all kinds.

On balance, therefore, there should be enough stimulating factors in the business picture to offset any weak spots that may develop in individual industries so that national income and business activity will probably continue at a high level for the balance of 1953 at least, and probably extend well into 1954. This means a big demand for long-term funds in the forms of new corporate issues, new municipal securities and mortgage loans on top of the new money that will need to be raised by the Federal government to finance the anticipated deficit during the next fiscal year.

This is the economic background to keep in mind in looking at probable developments in the money market during the months ahead.

Many of us do not yet fully appreciate the tremendous revolution that has occurred in the money market since the Federal Reserve removed the pegs from the government securities in March 1951. After nearly 20 years of controlled rates, few of us have had any real experience with operating in anything approaching a free money market.

Consequently it has taken time to adjust our thinking and to examine our lending policies in the light of such fundamentally changed conditions. Most of us had become so accustomed to operating in an easy money market we regarded such conditions normal. The tightening of money rates which developed during 1951, 1952 and 1953 has been considered a temporary condition that might soon pass over and we would return to the days of a plentiful supply of funds at low rates.

Rise in Interest Rates Probably Far from Complete

This sort of thinking has dominated the minds not only of many institutional investors but also of most mortgage bankers. We have only to recall the programs of MBA meetings during the past two years to realize how true this is. The argument has been presented at nearly every session that the demand for funds would tend to dry up and as soon as investors worked off their abnormally high commitments and the accumulation of new savings would result in sufficient demand for mortgages to reestablish the old pattern of rates. This was the major theme of several speakers at the MBA Convention in Chicago last fall who confidently predicted that by the spring of this year there would be a large amount of long-term investment funds pressing on the market to find outlets. As we all know, this has not occurred, and the money market today is tighter than it has been at any time during the last 20 years.

In my opinion the upward adjustments in interest rates are far from complete in many areas of the money market. The Treasury recently made its first cash offering of long-term securities since World War II with a relatively small issue of one billion dollars of cash at 3¼ per cent for 30 years. Despite the fact the issue was heavily over-subscribed and allotments were on the basis of 20 per cent of subscriptions, the issue did not command a premium in the market. Consequently other government security prices have declined to new lows and the corporate security market has been extremely weak. Recent issues of good quality public utility bonds are selling in the market to yield investors better than a 4 per cent return. Fully tax-exempt municipal bonds are now available in increasing volume at rates which are attractive even to institutional buyers.

If the Federal Reserve continues on the sidelines and lets interest rates seek their own level in a free market, the prospective large volume of new issues of long-term securities points toward still higher yields. Moody's reports that some three-quarters of a billion dollars of new public offerings of corporates are planned between now and July. In this same period an even larger amount of new municipal securities will come on the market. This flood of new offerings will hit the market at a time when insurance company commitment accounts, including recent purchases of the long-term Treasury 3¼'s which must be paid for by the end of July, are probably at an all-time peak. High business activity with a high price level simply requires a lot of money. Not only are capital expenditures high but working capital needed for inventories, receivables and taxes is far greater than business anticipated. To an increasing extent this money must now be raised from the long-term capital market as commercial banks are in an extremely tight position. Although life companies and other institutional investors are currently receiving a large amount of new money from current savings and loan repayments much of these funds are already committed and their government securities are at prices where liquidation would involve substantial losses.

Thus, for the next few months at least, the pressure should be toward

higher rates on all types of long-term securities, despite the fact that long-term rates have already advanced sharply during the past few months.

Under these circumstances, current rates on mortgage loans appear definitely unattractive to institutional investors. For some time now, FHA and GI loans have been a drug on the market. It is extremely doubtful that the change in rates will be sufficient to make such loans appealing to investors in view of recent and prospective changes in yield on other types of investments. In fact a gross rate of 4½ per cent on GI loans and FHA loans will probably still mean a discount market on these loans. This is merely arithmetic: At a 4½ per cent gross rate when we deduct ½ per cent for servicing and add another ¼ per cent for home office expense, the net return is reduced to 3¾ per cent without taking into account any losses that may be involved in foreclosures and on FHA debentures which continue to carry an unrealistic coupon. This rate of 3¾ per cent can readily be obtained and exceeded in today's market on quality bond investments.

For instance, take my own company, the Kansas City Life Insurance Company. It has been and will continue to be primarily a mortgage company. At the end of 1952 we had approximately 55 per cent of our assets in mortgage loans and have always operated through mortgage loan correspondents. Although we reduced the volume of our purchases of mortgage loans during the past three years we at no time completely withdrew from the mortgage market but continued to provide an outlet to our mortgage loan correspondents even if on a limited scale. We have done this for several reasons: Our long run determination to stay in the mortgage field; our desire to assist our mortgage loan correspondents as much as possible despite the fact that other avenues of investment were currently more attractive; and because we felt mortgage rates would be adjusted to other investment opportunities more promptly than has proven to be the case.

Our company, along with other life companies which are substantial mortgage lenders, have much at stake in wanting to see that the mortgage market is not placed at a competitive disadvantage in attracting funds during this period of transition to free markets. We have a genuine interest in preserving the mortgage loan correspondent system and we do not want it jeopardized by government programs that price FHA and GI loans out of the institutional market. That is why I feel we should all be concerned about whether the recent increase in the maximum rates on FHA and GI loans is really adequate under present conditions. If, as I anticipate, there is going to be a further rise in yields on other types of investments the new rates on FHA and GI loans will not be attractive and even more insurance companies may be forced reluctantly to withdraw or curtail further their activities in these markets. It becomes a little grim to apologize to your finance committee week after week when you present FHA and GI loans at yields below those obtainable

on other types of investment. With rates going up generally I am afraid most investment officers will continue to be faced with the same dilemma despite the rate increases on FHA and GI loans.

For more insurance companies to withdraw from the mortgage market would be particularly unfortunate now since we would be in effect abandoning the mortgage market to savings and loan associations and others who, by making loans direct, can obtain fees, etc., which compensate them to some extent as compared with institutional investors who operate primarily through mortgage loan correspondents. We all know that mortgage bankers have in the past at least been the backbone of the FHA and GI markets and for them to be forced to turn these markets over to other investors merely because rates are frozen at unrealistic levels either by law or by Administrative action of the government agencies responsible for these programs would seem not only unfair to mortgage bankers, but also in the long run a disservice to home owners and veterans. Another possible and serious consequence if this occurs may be renewed pressure for a revival of FNMA purchases and of more direct loans by the Veterans Administration.

Another surprising and discouraging development was the recent action of FHA and VA in permitting smaller down payments and lengthening of terms on guaranteed and insured loans. In the present market, institutional investors certainly feel that substantial down payments and relatively short terms will continue to be necessary in order to make mortgage loans at all attractive in comparison with other investment opportunities.

In this era of a return to free markets perhaps the best solution to the problem would be to establish a relatively high maximum rate on FHA and GI loans, say 5 per cent, and allow the market to set the rate on individual cases. This would probably result in certain sections of the country having the maximum rate while in other sections the going rate might be set at a lower figure. Individual borrowers might be able to bargain for rates below the maximum depending upon their equity in the property and their financial status. Also it would make possible loans in smaller communities where little if any money is now available through FHA and GI loans.

Adjustment in rates on conventional mortgage loans is overdue. Rates on conventional loans have been held down during the last few months partly because of the artificially low rates on FHA and GI loans. Now that these latter rates have been raised we may anticipate an increase in rates on conventional loans by at least as much as ½ of 1 per cent. In view of other long-term investment opportunities there is no justification for a conventional residential mortgage loan to be made at a gross rate under 5 per cent in today's market, and in most cases the rates should be higher. With real estate values and costs of construction at present extremely high levels, there is good reason for caution on the part of lenders. In the period ahead I believe you will see institutional inves-

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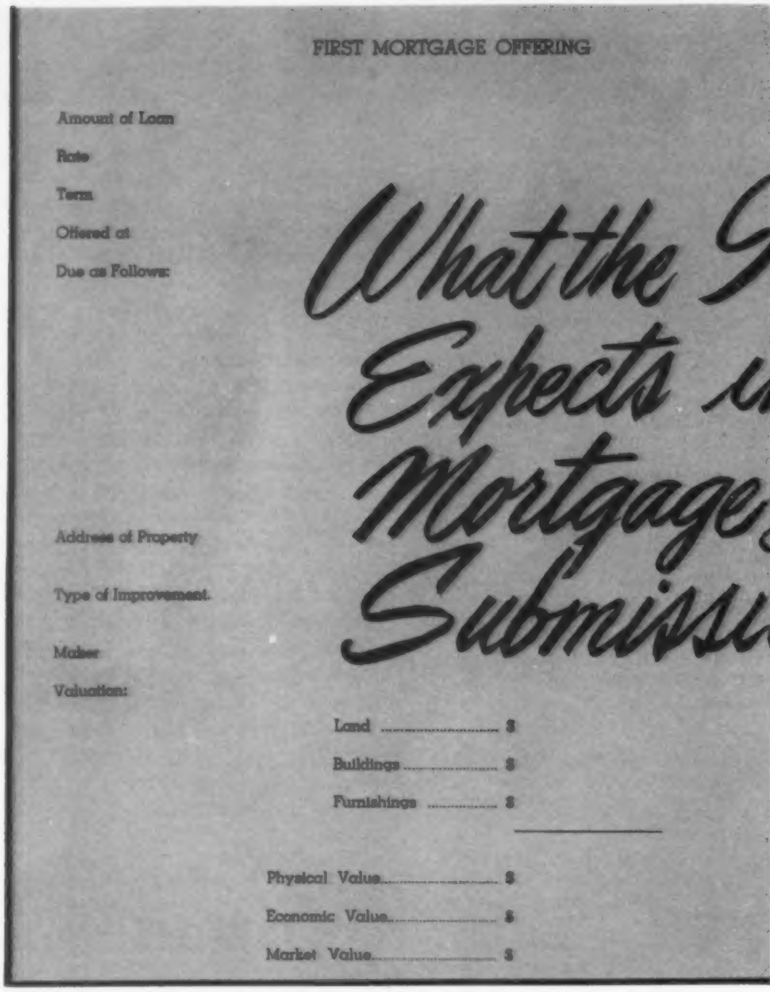
What the Investor Expects in Mortgage Loan Submissions



FIRST MORTGAGE OFFERING

Amount of Loan

Rate

Term

Offered at

Due as Follows:

Address of Property

Type of Improvement

Maker

Valuation:

Land .... $

Buildings .... $

Furnishings .... $

Physical Value.................. $

Economic Value.................. $

Market Value.................. $

A LITTLE while back we declined a mortgage application from one of our correspondents and one of the reasons given was the age of the building. He indicated to us—not too subtly—that this was the result of our not having acted promptly and that the building had grown old while we were making up our minds.

Be that as it may, it is a fact that speedier action will be obtained on complete, well-presented submissions. Many excellent offerings may have gotten off on the wrong foot and have been delayed or declined because of faulty presentations. In analyzing what the investor wants in a mortgage loan submission today, with primary emphasis on residential and apartment offerings, and secondarily on stores, these background facts should be kept in mind:

As a background I would like to make three points:

First: Investors in mortgages are long term investors. An insurance company from mortality and experience tables knows pretty well what it may be called on to pay out at any time and does not have to keep the liquidity required of a commercial bank. Consideration must be given not only to the immediate picture, but projections into the future must be made. The probable income, the probable economic need ten or fifteen years hence must be analyzed. Loans that may be perfectly good and sound for a commercial bank on a short term basis will not qualify for a long term mortgage. An example might be of an independent gas station operation, well-known, well-thought of locally, financially sound and well-established. The local bank might be glad to make a loan on a three to five year basis. We could not consider it for a ten to fifteen year mortgage. A rerouting of a highway could isolate him completely. This could easily happen and cannot be foreseen more than a few years ahead. However, if that same station were leased to any number of leading oil companies for the period of the loan, the entire picture is changed.

Second: Each investor has his own likes and dislikes and it is improbable that any single investor will have a broad enough policy to absorb all the loans that an active mortgage company can produce. Familiarize yourselves with the preference of as many investors as possible. An ideal situation is to have principals whose desires vary. Some investors like residential properties, some industrial and commercial. Some lean towards insured or guaranteed loans, others strive for the higher yields available in conventionals. Keep in mind at all times the likes and dislikes of the

You know what investors are looking for in loan submissions? It was about the first thing you ever learned in this business, you say? That may be very true but sometimes it isn't a bad idea to review some of the best-established practices in your operation and see if you've kept abreast of changing thinking and methods.

investor to whom the submission is made. These will change from time to time, but close contact should keep you abreast of policy changes.

Third: In the case of those investors to whom other avenues of investment are available, mortgages must compete with other investments for funds. An insurance company strives for the best yield that can safely be obtained. When corporate demand is heavy and the rate attractive, and the normal yield differential no longer exists, money will be diverted from mortgages. Consequently, loans that a given investor would take without question in four out of five cases, loans that meet the requirements in all respects and fit right into the pattern, may not be taken because of internal pressure for funds at a given time.

Regardless of the type of security, there is a certain similarity in most submissions. They should include a letter of transmittal outlining the highlights of the offering and commenting on features requiring special explanation, an application, suitable credit information, photographs, maps and plats as indicated by the circumstances. Procedures vary between investors as to who makes the appraisal. It may be the company's own representative, independent fee appraisers or the correspondent.

The submission should indicate clearly the terms on which the correspondents recommend it, including the prepayment privilege and any additional covenants or restrictions. It should present a clear picture and anticipate pertinent questions.

If an investor has been making residential loans in a town he undoubtedly has already studied that community, its need for housing, the type of housing needed, the stability of its industry, and the probable future demand. He will continue to watch these factors and will want to be informed of changes as they take place. However, once an initial analysis has been made, he will not generally require the situation to be restated with each application. However, he will want to know about the neighborhood in which the offering is located, its convenience to facilities such as shopping, schools, transportation, the approaches to it, its age, its general layout, the typical income and economic status of its residents. Obsolescence and changes in areas are responsible for more loss of value than is pure physical depreciation. The next consideration is the house itself. Here the most desirable is the medium sized, moderately priced, generally stable home. It should conform to the pattern of the area. Investors shy away from the larger, estate type homes, as a general rule. There are fewer people who can afford the upkeep, the maintenance, the help required to keep them going. Loans of over $20,000 to $25,000 may well be restricted to 50 per cent of the valuation and the term may also be cut down.

Resistance may also be encountered at the other end of the scale. Houses with two small bedrooms and no facilities for expansion may easily be outgrown. Reports we have received from our field offices indicate this type to be in oversupply in some areas.

The appraisal is of paramount importance. It should be made from the viewpoint of an expert real estate buyer, purchasing for long term investment or personal use. It should never be made from the *seller's* point of view. His interest terminates upon receipt of the purchase price. The interests of a prudent buyer and of a prudent investor lie in the future performance or utility of the property and in the prospects of capital recovery at some indefinite future time.

The main factor in any loan is the borrower and his ability and willingness to meet the payments. Both ability and willingness are important. Those with collection experience know how much easier it is to work with a borrower who is sincerely trying to meet his instalments with limited means, than it is to get to first base with one who may well be able to pay but just can't be bothered.

If we are to be spared some bad collection headaches in an economic set-back, however slight, an effort must be made to screen credit now. These are relatively good times, wages and employment are high. If an applicant does not qualify for a loan under today's conditions, the loan should not be made. No matter how thorough a credit analysis is made. some borrowers will later run into unforeseen difficulties. This is a normal risk in the lending business and they can in many cases be helped out. The problem is to weed out the abnormal risk before the loan is made.

To help pass a credit we have de-

By R. MANNING BROWN, JR.

Assistant Vice President, New York Life Insurance Company

veloped a credit rating pattern for a residential applicant. His weighted annual income is determined as follows: Full credit is given for regular wages and commissions, half credit for investment income, one third for overtime, bonuses, secondary jobs; additional credit is given for the wife's earnings, the percentage being determined by her age and type of work. The resultant net weighted annual income is divided by 60 and the result divided by the monthly earning charge of the loan to arrive at the carrying charge ratio. Less than one is considered poor. Over 1.8 is excellent. Other factors are rated, such as job security, employment record, attitude towards obligations as determined by a credit report, age, health, number of dependents, and a final score is reached. Sixteen points are needed to qualify.

This form is a help, but it is a guide only. There is no mechanical substitute for credit judgment. We have declined applicants with well over 16 points when we learned of a chronically casual attitude towards his debts. There was no reason for us to expect better treatment.

The term of the loan is, of course, important. We prefer a monthly payment loan to be fully amortized in a term not to exceed 20 years and to be occupied by the owner. The equity is a factor and so is its source. A $6,000 down payment from hard earned savings constitutes more real ownership than the same size gift from a father-in-law.

Despite reports to the contrary, I believe investors generally analyze an insured and guaranteed application as carefully as a conventional one. Regardless of the backing of a federal agency, it is just as time consuming and expensive to service a delinquent VA or FHA loan.

Now for a brief look at apartment loans. In many areas the effective demand seems to have been satisfied, especially for suites in the higher rental brackets. Because of this, investors will probably be quite selective in their apartment project lending activities. Family formations are now coming from the children born in the early thirties—the depression period when the birth rate was low. The demand for rental units may be expected to diminish. However, there are differences between areas of the country, depending on the rate of growth, and the emigration and immigration of workers. So a market will continue and loans made on projects that are well planned and financed.

My colleague, Bud Buckner, in a talk given at MBA's Northwestern Seminar last June, said that the investor had learned these things from experience:

» Apartment projects are a basic form of housing needed by a certain segment of the population.

» The annual net income produced by any apartment is subject to so many variables during the life of the usual mortgage that a wide fluctuation is inevitable. The earning stream cannot be expected to remain constant for an extensive period of time.

» Proper amortization is essential for the success of the investment. Heavier amortization may be indicated in boom years.

The investor must satisfy himself that the project under consideration can produce sufficient income to amortize the loan. The appraisal is one

of the most important pieces of data accompanying the offering. It may be made by the company or by an inpendent appraiser but regardless of who makes it, certain questions must be answered. The appraisal has a two-fold purpose: it fixes the maximum legal amount of the loan and, second, it reflects the project's earning power both present and future. The determination of the maximum legal loan is a simple arithmetical calculation but the estimated earning power of a large scale apartment house is the result of a careful investigation and study and of the assumptions which the appraiser makes. The appraisal of a large apartment should include not only a valuation but full information on: first, the conditions of supply and demand in the community. Obviously if there are numerous vacancies in other similar projects it will be difficult to interest an investor in the mortgage loan offering. There could be, however, heavy vacancies in a different class of project, such as high rent or luxury apartments and still be a strong demand for the type under consideration. Second, the appraisal should include some information on the health of the local economy and the trend for the future. Are there any indications of increasing unemployment? Does the local economy have a broad base or is it dependent on one or two industries? Is the population increasing and if so, why? Those questions and any other pertinent economic data should be included in the appraisal in my opinion. The third thing which the appraisal should cover is a description of the amenities of the location, proximity to schools, churches, transportation and retail stores. A fourth point which should be covered by the appraisal is the acceptance of apartment living by the local population. There are many communities where apartments have never been accepted except as a temporary expedient. In some areas garden type apartments are acceptable whereas elevator apartments make no appeal. A case in point is a large project in one of our major cities consisting of multi-story buildings where the vacancy percentage is extremely high, apparently due to a preference to single dwellings or garden type apartments on the part of the public. In one of the major cities in Mississippi there is an example of a strong preference for single dwellings at comparable cost and this condition has created heavy vacancies in one FHA 608 project in that city for the past two years. By contrast, apartment living is much more popular in cities such as New York, Chicago and Washington, D. C.

The investor will desire to avoid pioneering and should be advised as to the popular acceptance of the apartments of the type being considered. The fifth point the appraiser should cover is the propriety of the proposed rent schedule. The appraisal should reflect that the rents to be charged are competitive with those being charged for similar space. The investor will not be interested in luxury class rentals for space meeting only minimum standards of construction, layout, room sizes and location. Furthermore, he will not be interested in $60 per room per month rentals in communities which can afford only

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More Profits from
BETTER COORDINATION *of Your* SERVICING *and* PRODUCTION

EFFECTIVE coordination of production and servicing activities is a success requisite for any mortgage banking firm. Under present conditions, the successful mortgage banker must have a "heads-up" production department and an alert servicing operation. To coordinate the activities of both operations requires skills and patience far beyond the understanding of our predecessors of prior years.

Mortgage banking is broader and far more complex today than is commonly realized. It involves much more than securing, processing and approving loan applications. It involves far more than collecting payments, distributing and remitting principal, interest and escrows. It involves more than maintaining good business relations with builders, realtors, attorneys and lending institutions. The mortgage banker today must be a skilled craftsman in all of these phases of his business and at the same time possess a comprehensive understanding of government regulations, all of the fine points of real estate law, real estate transfers, brokerage operations, appraisals, title insurance, fire insurance and of all mortgage lending techniques.

In short, the mortgage lending profession today is not an easy one.

The coordination of two major departmental activities is, however, a clue to successful and more efficient operations. Production and Servicing are the two major functions of a mortgage business. It might seem, at first blush, that these two activities are only remotely related. They are separated by the processing, settlement and other departments. To be sure, these two keystones of a mortgage business may be physically separated but they are closely related. One depends on the other. One may not survive but for the other. You may not separate their respective activities and keep them apart, any more than you would separate the mortgage instrument from the bond, or the deed of trust from the note.

Objective planning and astute management would suggest that these two operations be forged together. Department heads should be encouraged to confer, exchange ideas and make suggestions to personnel in each activity. The first step toward over-all coordination of production and servicing is a proper understanding of the functions and responsibilities of both departments by all the personnel in each. From this common understanding of the activities and problems characteristic of each department, ideas and suggestions as to improvement in many phases are bound to follow.

Assuming that this common understanding can be achieved, working areas are established for proper and effective coordination of both departments. Here are some definite plans of coordinative action.

When the servicing department receives notices of pay-offs or requests for loan statements incident to pay-offs in one block, street, subdivision

"Mortgage banking is broader and more complex today . . . it involves much more than securing, processing and approving loan applications . . . coordination of two major departmental activities—servicing and production—is a clue to successful and more efficient operations . . ."

By **MAURICE R. MASSEY, JR.**
President, Peoples Bond and Mortgage Company, Philadelphia

or area, something unpleasant is happening to your portfolio. Some call it "portfolio-raiding" — whatever name is applied there is but one word to describe the situation—"unpleasant."

What Servicing Does

The alert servicing department will notify production and corrective action must be taken immediately. Management should prescribe commissions and fees to production representatives and solicitors as if these particular cases were actually new loan submissions. By these inducements, many loans will be saved. Every borrower involved must be contacted, personally, and in some instances financing plans even more advantageous to the correspondent and principal may be worked out. These interviews will be beneficial and the many advantages of present financing may be emphasized and the expense of refinancing may be stressed.

Protecting your portfolio from wholesale raiding is just as important as getting new loans.

The alert servicing manager will utilize the services of the production department in handling delinquent accounts. Production representatives should personally contact the borrowers, even the builders, attorneys or realtors who submitted such loans originally. A corrective payment plan can be worked out in person with the borrower. Sometimes, a resale and new financing is practicable and may be accomplished to the satisfaction of everyone. Neighborhood brokers are anxious for such opportunities. Production representatives are excellent personnel to be used as time and conditions permit on default and delinquency cases. The servicing department can save time and money in enlisting the cooperation of the production department in many default cases.

Representatives of the production department frequently attend Realtors, MBA and other meetings of groups interested in the home building industry. The interchange of ideas at these meetings is of value to the entire staff and frequent reporting meetings among your own personnel are to be encouraged. Meetings of local Realtor groups are of particular interest. Many of these schedule multiple listings sessions where local brokers list new and existing properties for sale with sales prices, property data and the like. The alert production man will bring such a list back to the office, check with servicing for eligible loan amounts of similar properties, check recent sales, office appraisals and other data in the immediate area and call the Realtor that very afternoon to assure him of the availability of mortgage financing enabling him to offer that particular listing on attractive terms to qualified purchasers.

This is a simple and effective device to demonstrate the value of your services to local brokers.

The servicing department should notify management when groups of loans are paid down to remaining balance levels where continued servicing at such levels appears unprofitable. Selected cases should be referred to the production department, again as if these were new loan submissions and each borrower should be personally contacted. In many instances refinancing loan applications can be secured allowing for repairs and improvements, consolidation of other debts, and other situations so as to create new business in substitution for the unprofitable servicing of small loans.

Same Approach Elsewhere

The same approach is applicable to paid down loans on apartment houses, project mortgages, commercial and industrial properties and frequently profitable refinancing can be accomplished to the mutual satisfaction of all concerned.

These suggestions are only a few examples of proper coordination between production and servicing—there are many others. If these two major departments can be trained to coordinate and work as a team, more efficient and successful operations are bound to result.

No Time for Compr

A Message to MBA Members Regarding Some of th

THIS is about a letter I received from the President of a life insurance company. It is a good letter, evidencing deep concern for the future of our country. It was prompted by our *Statement of Principles and Recommendations Concerning the Organization and Administration of Government Housing Agencies and Programs,* a copy of which was sent to all life insurance company Presidents. Among other things, the letter says "with the exception of proper care of our war veterans, I am opposed to any form of subsidy or aid from government to private citizens. All of the subsidies and aids become, in effect, a violation of fundamental concept of the equality of man before the law which is embodied in our Constitution . . . they tend to grow and when persisted in . . . produce severe tension in both the body economic and the body social, ultimately leading to disaster.

"With this in mind, I would answer your letter of April 30th . . . with the statement that these agencies and programs should be abolished. Let me add, however, that short of their abolition, a reform of these agencies and programs as proposed . . . will be a most wholesome and constructive accomplishment."

Most of us agree with the basic principles set forth in this letter. In endorsing this philosophy, however, we must recognize that FHA has served a useful purpose as a self supporting agency of government in: (1) aiding our recovery from the depression of the '30s; (2) in enabling private industry to handle a large share of the war housing program, thereby making possible substantial savings for the taxpayers and; (3) in extending the broad benefits of home ownership to our citizens and to our society. This program has made the nation more sound politically and stronger economically because of the many advantages of widespread home ownership for more of our people.

Under a government friendly to business, and given the necessary relief from the effect of anti-trust laws, private business might well have accomplished as much without governmental assistance, direction and control. But that is now water over the dam. Today we stand at another crossroad. Events and circumstances of the next few months—months, mind you—may determine the ability of American businessmen to substitute the dignity of the individual and the discipline of a free people for the regimentation of human and economic forces under government direction and control.

Today private enterprise has the good will of government. It is now the expressed policy of government to encourage and to support private initiative but not supplant it. Permissive legislation, perhaps, may be obtained for the asking under which a cooperative industry program may be formed which would remove any need for continued government assistance and subsidy for housing and housing finance. In the meantime, for the Federal government to abruptly withdraw entirely its self-supporting programs which have proved helpful in the past might preclude any possibility of an ultimate return to normal functions of constitutional government. It is not only an economic problem and a matter of fundamental concepts of constitutional limitations, but it is also *a very practical political problem.*

Voluntary participation of institutional investors in some sort of pooled risk program which would provide adequate safety factors and a proportionate distribution of the burden of bridging periods of distress, may be the only substitute for the paternal umbrella of government assistance and direction in our field. The experience of the Home Owners Loan Corporation is convincing evidence of the fact that the ratio of loan to value is not in itself the sole determining factor of a sound loan. The credit of the American home owner, together with the collateral of a properly-constructed, soundly-valued and well-located house, affords excellent security under long-term monthly payment mortgages.

Conventional lending, having the freedom to follow the market interest-wise, should step into the breach today and resume as rapidly as possible its place in the nation's economy without governmental assistance and direction. Existing statutory limitations on percentage of loan to value in some states are impeding progress in private lending. These laws, obsolete and archaic today, perhaps were necessary in the days of the five and ten-year unamortized loans but are outmoded now as a result of the proven experience of long term monthly payment mortgages. Mortgage bankers and institutional lenders in those States which still have these old laws should take immediate and aggressive steps to see that new legislation is designed and enacted to overcome these problems.

A long and tedious struggle for a principle has just culminated in an interest rate adjustment on VA and FHA loans. In opposition to this move, there were those who repeatedly warned that "We cannot give

promise of Principle

e of the Present Problems of the Mortgage Business

in to the money lenders in their demands for higher interest rates on home mortgages. If we give them an inch they will want a mile." Nevertheless Administration leaders, outstanding veterans organizations and others took a more practical view and supported our contentions in the fight for flexible interest rates.

Regardless of the fact that we do not yet have the benefit of flexible rates and that the recent fixed rate adjustment, when it finally came, proved to be "too little and too late," mortgage bankers and investors alike now have a high obligation to do what they can within reasonable limits to see that these programs work effectively. As representatives of free enterprise and as custodians of the nation's thrift funds, we cannot afford to lose sight of the fact that there is something more at stake at this crucial time than the question of yield alone, as important as that may be. There is a job to do. If private business cannot shoulder it then government again will surely step in, and none should appreciate more than we, the fact that direct government lending is totally incompatible with the traditions of what we call the American system. Many investors realize and appreciate this fact and are endeavoring to shape their policy accordingly.

Over a long period of time, year in and year out, mortgages have afforded a favored, dependable and profitable means of investment for thrift institutions. The financing of the American home, has always afforded an appropriate, as well as a profitable use of savings funds.

Unusually heavy capital requirements of the whole society at present have brought about unusual opportunities for long term investment. Furthermore, it should be quite clear to all that the monetary and fiscal policy of the government at present, as well as the trend of the general market for competitive high grade securities is such as will likely continue for at least some months to come to put pressure on *any fixed interest rate* for mortgages. Nevertheless, government insured and guaranteed mortgages at the increased rates of 4½ per cent, taking all things into consideration, compare favorably with the best securities the market affords. A fair proportion of investment funds, as well as a reasonably constant flow thereof for mortgage loans, is essential to a well-balanced economy. The broad social and economic demands for the maintenance of a reasonable volume of production and supply of new homes must and will be met. If private initiative is able to meet these demands it may avoid embarrassment to itself, as well as to a cooperative Administration.

At the same time, mortgage bankers and builders can ill-afford at this point to continue unduly to press an already demoralized mortgage market for immediate restoration of credit to previous levels.

Every move now should be weighed in the light not alone of possible profit or loss but of what is good and sound for the investor, the borrower, the builder, the community, and the national economy. With the benefit of the recent adjustment of interest rates, any mortgage banker or investor who attempts or is willing to continue to live by the system of discounts and unrealistic service fees and at the risk of further demoralization of the market and the industry is following short-sighted policy. If we refuse to compromise our principles and squarely meet our responsibilities in this present situation we may shortly expect to enjoy a more favorable climate for mortgage credit.

While we subscribe to the principle in the old adage that "A horse given his head will do his best work," we should also remember that it is abuse of freedom which makes controls necessary. If we want to remain free of government controls and interference, we must demonstrate our own responsibility and integrity. We must be worthy of our trust. We must start now and learn fast to lean less on government and to depend more on ourselves.

Business today is on trial as never before. We and the policy-making executives of our great free institutions which are largely entrusted with the guardianship of our capitalistic system as well as with the savings of our people, have a responsibility to ourselves and to the nation which in certain respects is perhaps accentuated today more than ever before . . . a responsibility which behooves us not only to carefully weigh comparative safety and return, but also never for a moment to lose sight of the importance of the protection and the preservation of the capitalistic system itself.

Let's stop just *standing* for the right things—let's start *pushing* for them.

BROWN L. WHATLEY, *President*
Mortgage Bankers Association of America

Private Lenders Hold

96% OF THE CITY MORTGAGE DEBT
80% OF THE FARM MORTGAGE DEBT

The city loan total is on one to four family houses. While direct federal lending has shown a significant decline, the real government participation has been in insuring and guaranteeing mortgages. Here's a run-down of debt.

A SIGNIFICANT commentary on the ability of private lenders—life companies, banks and other lenders—to meet the credit needs of an expanding economy is provided by the trend of home and farm mortgage debt and the marked shift in the sources of these funds over recent years.

The over-all results of the 1939-52 period can be summarized as follows:

Right now, private lenders as a group hold 96 per cent of the non-farm mortgage debt on one-to-four-family homes, and Federal agencies the balance of four per cent. The 1939 figures were 87 per cent and 13 per cent, respectively.

A much greater shift has occurred in the farm sector. Private lenders combined held 80 per cent of the total farm mortgage debt last year, as against 57 per cent in 1939. Thus, the latest farm mortgage debt holdings of Federally sponsored lending agencies were less than half those of 1939, which was true of the dollar amount as well as of the proportion of the total.

Taking home and farm mortgage debt together, private lenders currently hold 95 per cent of the total, as against 78 per cent in 1939.

However, though direct Federal lending in the mortgage field has shown a marked decline, Government mortgage guarantees and insurance have grown greatly and now cover about 40 per cent of the entire home mortgage field. About 60 per cent of these underwritten loans are GI and the balance FHA.

Mirrored in the growth of private lending over the 1939-52 period, to business and to Government bodies as well as in the mortgage field, is the spectacular record of personal savings. Taking the people's thrift institutions alone—life companies, savings accounts, and savings and loan associations—accumulated savings have increased by some $91 billion in the period, to bring the total to about $144 billion at the end of last year. That is what has enabled these lenders to keep pace with the expanding needs of the economy.

The rise of private lending in the mortgage field has been accompanied by interesting changes in the importance of these lenders themselves as a source of funds. Taking the mortgage debt figures on one-to-four-family non-farm homes, the figures show that the total increased from $16.3 billion in 1939 to an estimated $58.2 billion at the end of last year, a rise of 257 per cent. Here are the changes in home mortgage holdings of principal lenders in the period:

Life insurance companies — from $1.5 billion in 1939 to $11.8 billion in 1952, increase of 692 per cent.

Commercial banks—from $2.1 billion to $11.3 billion up 437 per cent.

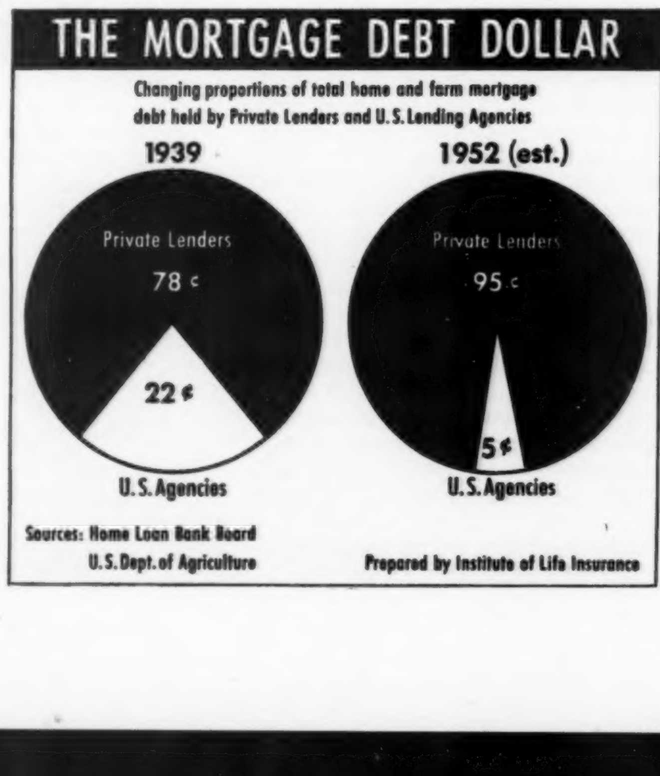
Savings and loan associations—from $3.6 billion to $17.6 billion, rise of 386 per cent.

Mutual savings banks—from $2.1 billion to $6.2 billion, up 190 per cent.

U. S. lending agencies—$2.2 billion as compared with $2.2 billion, unchanged.

Individuals and others—from $4.8 billion, to $9.1 billion, up 89 per cent.

The figures thus show that the life companies scored the biggest proportionate increase in home mortgage loans of all the lending groups in the 1939-52 period. As a result, the life companies are now second only to savings and loan associations as a



source of home mortgage funds whereas they were in sixth place in 1939. Savings and loan associations of course invest the bulk of their funds in home mortgages.

Equally interesting shifts in the source of mortgage funds have taken place in the farm field. Though total farm mortgage debt was approximately the same last year as it was in 1939, having been reduced sharply during World War II and gone up gradually since, the ranking of the lenders is very different than it was over a decade ago.

Life insurance companies, for example, held $1.6 billion of the estimated $6.6 billion farm mortgage debt in 1952, or 24 per cent of the total, as compared with less than a billion dollars, or 15 per cent, in 1939. The amounts and proportions owned by commercial banks have risen from $500 million and 8 per cent in 1939 to over a billion dollars and 16 per cent last year. On the other hand, the farm mortgage holdings of Federal lending agencies fell from $2.8 billion to $1.3 billion in the period, dropping from first to third place in ranking at the same time.

The following table shows the changing proportions of the home and farm mortgage debt held by principal lenders between 1939 and 1952:

Lender	1939	1945	1952(e)
NON-FARM ONE-TO-FOUR FAMILY			
Savings & Loan Assns.	22%	28%	30%
Life Insurance Cos.	9	12	20
Commercial Banks	13	15	19
Mutual Savings Banks	13	10	11
U. S. Lending Agencies	13	5	4
Individuals & Others	30	30	16
FARM			
U. S. Lending Agencies	43	32	20
Life Insurance Cos.	15	19	24
Insured Comm'l Banks	8	11	16
Individuals & Others	34	38	40

(e) Estimated; farm figures are as of July, 1952.

Sources: Home Loan Bank Board; U. S. Dept. of Agriculture; Institute of Life Insurance.










Clinics in Kansas City and San Francisco

SAN FRANCISCO and then Kansas City marked the end of the MBA Clinic trail; and when the registrations were counted, well over 2000 members had turned out for this 1952-1953 series of regional meetings. The cooperation extended by MBA members in Clinic cities and the enthusiasm of the local support was added evidence that the idea of carrying Association activities to where the members are was still a good one.

The Kansas City and Francisco Clinics were, in one respect, amusing affairs. A part of each program was staked out for discussing the state of the FHA and VA markets which had become matters of acute interest after the first week in April. Action was expected "any minute." It happened a day after MBA closed shop in San Francisco — but we were ready in Kansas City.

It may—or then again it may not —seem like old stuff now but it's well to have it on the record, that is, the forceful and honest way in which MBA pointed to the abuses which had grown up in VA financing. Said President Brown L. Whatley in San Francisco:

"I challenge the Administrator of Veterans Affairs to accept the full responsibility for the widespread abuses in the GI Home Loan financing program which have been due entirely to this vicious system of discounts of which we are all familiar and which we all deplore.

"The legality of these discounts has been recognized, provided they are not in any way charged to the veteran purchaser. But it is folly, in my opinion, to assume that in a great majority of cases these discounts are not, in one way or another, actually paid by the veteran himself. I say that the veteran is paying the bill—but he is paying it in a way that he cannot see and in a way which prevents him from actually knowing how much he pays.

"Actually, the interest rate, or cost of the VA home loan, has been raised by this discount system—but it has been raised in a way that makes for confusion and misunderstanding even when it avoids deception, subterfuge and abuse. Certainly no credit accrues to the Administrator of Veterans Affairs in continuing to pursue this wholly unrealistic interest rate policy because it is accomplishing nothing for veterans who are seeking mortgage financing. No credit accrues to any organization interested in veterans' welfare to continue to advocate this unrealistic interest rate which is hampering veterans everywhere in securing mortgage financing."

Kansas City marked the debut of a familiar mortgage personality in his new role of FHA Commissioner. Guy T. O. Hollyday said that one of his first acts as commissioner is going to be a request for a reduction in down payments.

"The present minimums, on a graduated percentage scale, were set up eighteen years ago when the FHA began operations. A $6,000 house then is selling for about $12,000 now, and the down payment requirements,

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>> MBA IN KANSAS CITY: It had been some time since the Association scheduled a meeting in this Heart of America and a good turn-out was the result. As usual, there was a camera around to take note of those who were there and on the opposite page are some of them.

Reading across the page and from left to right you'll find, first, Edward J. Eisenman, president, Kansas City Title Insurance Company; Cliff Brisbois, Kansas City realtor; Morris Slupsky, St. Louis, president, Missouri Real Estate Board; and Frank L. Woodward, Kansas City realtor.

Right photo, a young mortgage man with three weeks experience, Byron C. Shutz, makes an early debut on the rostrum. The complete line-up, Orville Gore, Iowa-Des Moines National Bank, Des Moines; Henry H. Edmiston, Kansas City Life Insurance Company; Dale M. Thompson, City Bond and Mortgage Company, Kansas City; and Clinic Chairman; Byron C. Shutz, Herbert V. Jones & Company, Kansas City; MBA President Brown L. Whatley; Joe Jack Merriman, Merriman Mortgage Company, Kansas City; and Robert H. Pease, president, Detroit Mortgage and Realty Company.

Second row: E. H. Grootemaat, A. L. Grootemaat & Sons, Inc., Milwaukee; H. Marvin Bastian, Fidelity Investment Company, Wichita; and Jack M. Muse, The Title Guaranty Company, Denver. Right photo: John Taylor, Jr., The Amortibanc Investment Co., Wichita; John Ely Weatherford, Title Insurance Corporation of St. Louis; and George Carpenter, Republic Mortgage Co., Inc., Texarkana, Ark.

Third row: Mr. Edmiston; Gavin Leady, president, Federal Reserve Bank of Kansas City; and Ed McDonald, Republic Mortgage Company, Inc., Fort Smith, Ark. Right: H. D. Froning, assistant superintendent, city loans, and John M. McGill, superintendent of city loans, Equitable Life Insurance Company of Iowa, Des Moines.

Fourth row: Preston L. Moss, Herbert V. Jones & Company, Kansas City; Joseph W. Kessinger, Missouri Bank and Trust Company, Kansas City; and Paul M. Jones, Herbert V. Jones & Company. Right: MBA Vice President W. A. Clarke, FHA Commissioner Guy T. O. Hollyday; MBA President Brown L. Whatley and MBA Past President Byron T. Shutz.

Fifth row: Homer C. Bastian, Fidelity Investment Company, Wichita; Jack D. Merriman and Joe Jack Merriman, both of Merriman Mortgage Company, Kansas City; and MBA General Counsel Samuel E. Neel. Right: The new FHA Commissioner Guy T. O. Hollyday in a huddle, as he was all through the meeting, surrounded by mortgage men who had known him for years and others eager to extend good wishes on his new assignment.

Brown L. Whatley

W. A. Clarke

William A. Marcus

"As our contribution to the thinking on public housing in the future, we submit that it is the responsibility of society to eliminate urban slums and provide decent housing for all income levels, but that such responsibility is primarily that of the housing industry and states and cities."

"For the first time in the lives of most of us in the mortgage business we are dealing in a free market . . . the balance in our financial economy is shifting from government back to private enterprise—an experience which few in the mortgage business know anything about . . ."

"Consolidation of action and thinking on monetary policy is badly needed . . . if the Treasury, Federal Reserve, HHFA and VA had joined in setting a proper course for FHA and VA financing at the time of 'accord,' we would have had an orderly transition from the easy money period . . ."

as far as the FHA is concerned, are unrealistic."

He had just announced his new advisory board, a move recommended in MBA's Statement of Principles and Recommendations, and four of the six named are also familiar to the mortgage industry. James W. Rouse of Baltimore heads the six man committee which includes E. A. Camp, Jr. of Birmingham, Walter Gehrke of Detroit, Philip M. Klutznick of Chicago and Hal J. Mendon and Fritz Burns of Los Angeles.

Iowa MBA Annual Meet Held at MBA Clinic

The annual convention of the Iowa MBA, always one of the best attended regional mortgage events, was this year combined with the MBA Kansas City Mortgage Clinic since a good many from the tall corn state would be there anyway. Principal event was the luncheon for Iowa members opening day. M. N. Baird, assistant vice president, Bankers Trust Company, Des Moines, was elected president, Richard Linderberg, vice president, Conservative Bond and Mortgage Company, Sioux City, vice president, and Robert Beal, vice president, Iowa Securities Company, Waterloo, secretary and treasurer.

>> RETURN TO SAN FRANCISCO: After MBA's 1951 Convention in the city of the Golden Gate and the California reception we received, it wasn't hard to figure out that we would be back again as soon as possible. That was April 30 and May 1 for the Western Mortgage Clinic and the performance on the part of the California people was as excellent as before. Some of those who were there are noted on the opposite page:

No. 1. Roy Burton, Travelers Insurance Company, San Francisco; E. H. Warner, assistant vice president and manager, mortgage loans, Aetna Life Insurance Company, New York; and Frank Hayward, Coldwell, Banker & Co., San Francisco.

No. 2. Lloyd Baird, vice president, Henry Broderick, Inc., Seattle; Phil Miller, Norris, Beggs & Simpson, San Francisco; and Harry Baldwin, Washington Mutual Savings Bank, Seattle.

No. 3. Robert Ensminger, Pacific Mutual Life Insurance Co., San Francisco; J. R. Jones, Security First National Bank of Los Angeles; Thomas Lowe, Pacific Mutual Life Insurance Company, Los Angeles; Wilbur Warmer, Western Mortgage Corp., San Francisco.

No. 4. Eugene S. Cox, Pacific Mutual Life Insurance Co., San Francisco; Mr. Burton, again; Willis R. Bryant, American Trust Company, San Francisco; and Al Maggio, Marble Mortgage Company, San Francisco.

No. 5. D. C. McGuinness, D. C. McGuinness Co., San Jose; Kirk Whitehead, Mason-McDuffie Co., San Francisco; and Henry Ehlers, Crocker-First National Bank, San Francisco.

No. 6. George Gummerson, vice president, Title Insurance & Trust Co., Los Angeles; David C. Northridge, Institutional Mortgage Co., Bellflower, Calif.; Richard Larson, C. A. Larson Investment Co., Beverly Hills.

No. 7. Otto F. Blanert, Oakland Title Insurance Co.; Frank J. McCabe, Jr., MBA director of education and research; Rome Moretti, Bank of America NT&SA, San Francisco and C. C. DeWitt, East Bay Mortgage Company, Oakland.

No. 8. Willis R. Bryant again and William A. Marcus, American Trust Company, San Francisco; Ralph Bruneau, vice president, Valley National Bank of Phoenix; L. H. Marlar and Carroll J. Pierce, Standard Mortgage Co., Phoenix.

Eyed a First Down but Made Touch Down

The more than 250 who attended MBA's Clinic in Kansas City crowded into Hotel President's ballroom to hear the first major address of FHA Commissioner Guy T. O. Hollyday since taking office. Everywhere there was a tendency to greet Commissioner Hollyday as a distinguished outside guest and for him it must have been a little difficult since he had long known a very large number of those at the meeting. The new FHA and VA rates were the liveliest topics of the moment, having only been announced two days before. Hollyday recalled some of his thoughts of recent weeks.

"When I arrived on the FHA scene fifteen days ago, I looked up my quarterback. 'Mr. Cole,' I said, referring to the plan to raise interest rates on FHA mortgages, 'let me have the ball. I know I can get a first down.'

"Mr. Cole agreed that I could, but he replied, 'We've got to have teamwork. While you are making your first down, the rest of the team still will be in a huddle.'

"Meanwhile, I told Mr. Cole, 'We're losing time; we're being penalized right back to the goal line.' But, it turned out, the quarterback was right. The team got together, we announced our plan to increase interest rates and, instead of making a first down, we made a touchdown.

"Not only was our quarterback right, but our coaching staff was well aware of the situation. After organizing our team, it was easier to go ahead.

"I feel that the move to increase interest rates has caused considerable optimism among lenders and builders, and it certainly will make a better and more sound base of operations for the borrower as well."

He paid tribute to the new HHFA Administrator Cole.

"C," he said, "stands for Cole, and it also stands for courage, capability and for co-operation, attributes well embodied in your own Albert M. Cole of Kansas."

Hollyday discussed a factor of FHA operation which he plans to investigate fully and promote. That is the trade-in house, older dwellings in which the housing administration may broaden its scope of improvement financing. This idea is prominent in MBA's statement of recommendations.

"Builders feel that older homes can be treated much as used cars," Hollyday said. "The FHA can help by extending more liberal mortgage financing for repairs and other betterments in order that we may get the maximum use out of our existing housing."

At the speakers table for the Hollyday dinner were Jack Merriman, Merriman Mortgage Company, Kansas City; Stanley Cowherd, president, Kansas City Home Builders Association; George C. Kopp, executive vice president, City National Bank and Trust Company, Kansas City; J. Vivian Truman, Kansas City Director of FHA; Grant Torrance, vice president, Businessmen's Assurance Company, Kansas City; Delton Bennett, Kansas FHA Director; Ray Reece, vice president, Commerce Trust Company, Kansas City; Roland H. Hewitt, president, Union National Bank, Kansas City; MBA Vice President William A. Clarke, Philadelphia; Byron T. Shutz, president, Herbert V. Jones and Company, Kansas City and toastmaster; and FHA Commissioner Hollyday; MBA President Brown L. Whatley; Dale M. Thompson, president, City Bond & Mortgage Co., Kansas City, Chairman of the Clinic; Gavin Leady, president, Federal Reserve Bank of Kansas City; Henry H. Edmiston, Kansas City Life Insurance Co.; Phil Branwell, executive vice president, First National Bank, Kansas City; George W. Miller, president, Kansas City Real Estate Board; Clyde Crawford, loan guaranty officer, Kansas City VA; R. L. Dominick, president, Traders National Bank, Kansas City; and Samuel E. Neel, MBA general counsel.

TOO EARLY?

It certainly isn't too early to get your hotel reservation in for MBA's 40th Annual Convention, Miami Beach, November 9 to 13. About 1500 people already have hotel accommodations. If you're not among them, better ask the national office for reservations forms—today.

LOAN SUBMISSIONS

(Continued from page 17)

$30 per room per month or less. The sixth point of information which should be included in the appraisal, is the quality and nature of construction and of the mechanical equipment. The physical properties of the building should be described in sufficient detail to enable the investor to conclude that the security is sound and will not deteriorate more rapidly than normal. The seventh item which should be incorporated in the appraisal is a comment on the efficiency of space use, room sizes and layouts. Needless to say, the marketability of the space in any apartment has direct bearing on its earning power. Room sizes and room arrangements must satisfy prospective tenants. This is particularly important in competitive periods and may mean the difference in the long pull between success and failure.

In addition to being marketable, apartment space must be utilized with a high degree of efficiency to provide the maximum rentable area and a minimum of operating and construction costs. The eighth point is an evaluation of the quality of management. This is a factor of prime importance to the success of an apartment project. The presence of experienced and capable management will tend to convince an investor that the potential earning power of the project will be exploited fully and that net income will be applied first to amortization of the mortgage debt and then as a return on the equity. When net earnings are likely to be applied first as equity investment rereturns and secondly as mortgage amortization, the investor will be wary. The ninth and last point is the estimated annual income projected over several years.

All of the information I have itemized as data to be included in the appraisal, properly analyzed and weighed by the appraiser, enables him to reach the conclusion that the apartment project will earn a certain net income and therefore has a certain value for mortgage loan purposes. Previously I have pointed out the error of assuming that apartment earnings will remain constant and of ignoring the fluctuations in net income which are inevitable over a period. In addition to the data accompanying the appraisal, the investor needs to know the all important terms of the proposed loan. He must be advised as to the amount, interest rate, period of years, amortization plan, prepayment privilege if any, and the brokerage and servicing fees involved. These items enable the investor to judge not only some of the safety factors but also the net yield which must be compared to the yield available from other investments. A credit report on the applicant must reflect a clear payment record at least and the reputation of the builder will lend strength to the offering in direct proportion to his proven ability to produce a durable and marketable product.

Now a word on shopping centers. The great appeal of these centers which are appearing in outlying areas is the ease of reaching them by automobile. Not only is good parking space paramount, but so is ease of access and egress. A parking ratio of 4 to 1 is desirable. The necessity of making left hand turns across busy boulevards is a handicap, especially with women drivers. From a lender's standpoint, remember he puts up the debt money and is not paid for risk capital. Generally, he will prefer fixed minimum leases on the part of the major tenants that will be sufficient to carry the loan.

As a final word with respect to all loans, few lenders today are willing to look to the physical security of the real estate alone. The earning power behind the loan is the key to ultimate success or failure.

VIEWS RE: FHA-VA PROSPECTS

(Continued from page 9)

pace with the rapidly expanding demand and, as a result, both the government and the private sector of the economy have been vying with each other for money. That's raised the price and the price is the interest rate.

While the insurance companies and most institutional investors are reappraising the new conditions in the mortgage field, one group has indicated that it will be a heavier buyer of GI loans. The savings and loan associations, said U. S. League President Charles L. Clements, are going to earmark a billion dollars for GI home loans for the rest of this year. The League president pointed out that the increase in the interest rate had removed the "marked competitive disadvantage" of veterans home loans to other type of mortgages and investments.

"The new rate," he added, "will permit our institutions to place more of their funds in GI loans than has been possible for the past two years.

"We intend to make a determined effort to funnel GI funds into those rural and less populated areas where veterans loans have always been difficult to secure."

And then Mr. Clements brought up a point that seems to be bothering a lot of lenders, including our own members. "Since the national Administration has provided a realistic interest rate on GI loans, it is now up to lenders to make sure that the GI program moves ahead with new life and vitality," he said.

In any event, hard money was rapidly becoming an "issue." There was a lot of beefing on Capitol Hill about the new rates. Labor was sharp in its criticism of the new monetary policy and was quick to single out the higher VA and FHA rates. One union chief called it a "complete surrender to the mortgage lenders." A group of congressmen got together to support a resolution calling for the Federal Reserve to support the government bond market at par. And on Capitol Hill there were signs that, while the government is delighted with the way the new policy is serving as a brake on inflation, if the policy went too far we might find that it might help along a recession trend.

Was the hard money policy here to stay? It certainly seems so but there was every indication that it wasn't going to get out of hand or that it would go as far in its direction as the cheap money policy did in the past two decades. Actually, the country is still in a cheap money period and while that statement cannot accurately be measured in terms of mortgage rates, it is certainly reflected in the prime bank rate. It is now 3¼ per cent, highest since 1934, but in none of the 12 years prior to 1930 had it been as low as 3¼. From 1919, when the rate was 5¼ per cent, it moved to 7 per cent in 1920 and then again the Federal Reserve stepped in to curb the expansion.

THE higher interest rate policy of the government was a month old and the announcement of the increased FHA and VA rates were a matter of record for five days when members of the Texas MBA—from all over Texas and elsewhere — got together in Dallas for the 37th annual convention of this largest regional mortgage group in the country. A month's experience with the higher money market was enough to point the way conclusively to what it is going to cost everyone to borrow in the future; but five days' experience with the higher VA and FHA rates was not enough to give any clear indication as to what investors would do now, whether the market would reopen, what a lender might expect.

But the new atmosphere in the financial economy was the principal topic anyway.

MBA President Brown L. Whatley told the Southwestern audience—one of the areas in the country particularly hard hit during the two years when VAs and FHAs were out of line with the market—that the increased rates would tend to open up "the dormant mortgage market" and that "there should be a more adequate supply of money for both types of loans."

Said Arthur W. Smith, vice president and economist of the First National Bank in Dallas, and also close to the thinking in the Southwest:

"Obviously if the government raises its interest rates significantly enough to attract the money it needs to refund into longer term securities—other borrowers will have to do without, unless the higher rates all around induce greater saving from the public. In either event, it can be argued that the process can be deflationary.

Elder statesman of Texas mortgage banking and first president of the Texas MBA was on hand for the 37th annual convention in Dallas. He is A. Y. Creager of Sherman who was also active in MBA activities not too many years ago and served on the Association's board of governors.

"So, one wonders whether the net effect of all this might not be disappointing when finally appraised. Is there danger that the new policy will result in a general setting-of-the-brakes on the entire economic machine? Is it possible that what seems to be a minor device will turn out to have the same leveraged force that the small brake cylinder has in slowing a giant truck heavily loaded with cargo? We wonder! Yet the caliber of men at the Treasury helm leads us to believe that the risk has been calculated.

"One possible outcome of the new policy is that before it can work fully, interest rates will have to move much higher. It is doubtful whether, in view of the favorable tax treatment debt receives over equity financing, rising interest rates (as far as they have gone) will run competing borrowers out of the market. The result then could mean simply higher interest all around, forcing the government to go up some more in order to attract funds to it. (Of course all of this assumes that the Federal Reserve will remain out of the picture so far as support is concerned.) But before one is entitled to draw such a conclusion, he must consider the possibility that credit expansion may come from the banking system through its normal operations."

And from the senior member of the board of governors of the Federal Reserve, one of the two government agencies playing the dominant roles in the new monetary policy, came a warning. Said M. S. Szymczak:

"Many are beginning to wonder whether a decline in home building may now be in prospect, perhaps fairly soon. Questions are raised whether real estate values will stay at present levels, which are perhaps double those at the end of the war. Some doubt the soundness of our large mortgage debt structure.

"What are some of the relevant facts? For about two years now, activity in residential building and real estate has been stabilized at a high level. In contrast to the late Twenties, vacancies are still very low, and rents are continuing to rise, in part reflecting the relaxation or suspension of rent controls.

"Financing arrangements on both outstanding debt and new loans are

very different from those of the Twenties. Both borrowers and lenders have several advantages which were not available in that earlier period. First, about 44 per cent of the present home mortgage debt is underwritten either by VA or FHA. There is the almost universal practice of using regularly amortized mortgages. The short term, non-reducing mortgages which tripped many a home buyer and mortgage lender in the late Twenties are fortunately few and far between.

"Monthly payments for home buyers appear to be in fairly reasonable relationship to their current incomes. The high cost second mortgage that was an additional peril to home buyers in that earlier period has been largely eliminated but recently I understand there has been some revival of the second mortgage.

"Home building in the postwar period has been based partly on backlog demands and a rapidly growing population. It has been facilitated by easy credit—including low down payments, long maturities and low interest rates. It has been aided, too, by large liquid asset holdings, high incomes and rising real estate prices.

"The backlog has now been drawn down, interest rates have risen and family formation may be less rapid in the years just ahead. Demands for houses — and particularly for older houses — are not as urgent as they were and property values have been stable for some time. On the basis of first quarter results, however, it appears that the total number of new houses built this year may not be far different from either 1951 or 1952, which despite many restrictions were both excellent construction years.

"If high levels of building activity are to be maintained and the soundness of our present mortgage structure preserved, it will be essential to maintain orderly conditions in the real estate and construction markets. It is clear that we must at all cost avoid the speculative building and financing operations that characterized the late Twenties."

"Get your house in order now" was the advice which Thomas E. Lovejoy, Jr., president of The Manhattan Life Insurance Company, had for Texas members.

"It looks to me as if the honeymoon

New president of Texas MBA is J. W. Jones of the Jones-West Mortgage Company, Dallas. He succeeds H. A. Crabb, Houston. Left is J. DuVal West of Mr. Jones' company who was reelected secretary and treasurer and right is G. R. Swantner of The Swantner Investment Corporation, Corpus Christi, who was named vice president.

Texas speakers: Arthur W. Smith, First National Bank in Dallas; George J. Bender, vice president, Brooklyn Savings Bank; and Assistant FHA Commissioner Walter Greene. Below: John W. Austin, Jr., president, T. J. Bettes Company, Houston, was selected to receive the first J. E. Foster Award. Established last year by J. E. Foster & Son of Ft. Worth in honor of J. E. Foster, Sr., it was planned as an annual recognition for the Texas MBA member deemed to have rendered the most outstanding service for the Association during the year. A committee named by President H. A. Crabb selected Mr. Austin for the honor and here's Don Fitch presenting it to him.

Texas MBA programs are usually high level discussions of mortgage matters most pertinent at the moment and the sessions are well attended—a somewhat surprising thing, too, in view of the way the Convention committees usually load up the programs with all sorts of entertainment features. This year it began with a reception by the Texas Title Association (a "conditioning" party, as they described it, to "prepare you for the ordeals that lay ahead." In West Texas, they call it "separating the sheep from the goats"). Then a luncheon for men, a style show for the ladies, a luncheon for the ladies, then the big event, the Cotton Carnival Party and concluding with a formal dinner and dance.

Scenes like the above were common place at the big Cotton Carnival affair. Yes, you're right: in that first photo, it definitely is retiring Texas MBA President H. A. Crabb, MBA Vice President W. A. Clarke, MBA President Brown L. Whatley and Assistant FHA Commissioner Walter Greene. What the boys are pointing at is not known. They all have dunce caps except President Whatley.

is about over for the mortgage banker, and he must now be prepared to meet competition and do a little hard work.

"In today's market I have some doubt that a one-half per cent increase in the interest rate on VA loans and a one-quarter of one per cent increase in FHA loans will really be competitive with other available investments. I have always in my own mind used a rule of thumb as to what might be regarded as a reasonable spread between the yield on long-term United States Treasury bonds and other investment outlets. For instance, a AAA corporate security should yield a minimum of 30 to 40 basis points more than a United States Treasury bond. AA corporate securities should yield 40 to 50 basis points more, and a single A bond 50 to 60 points. When you get to lower quality than that, the spreads get bigger. In other words, a BAA bond should yield 60 to 75 basis points, and mortgages should at least have a net yield of close to 1 per cent higher than United States Treasury bonds. After taking out a servicing fee of one-half of 1 per cent, the net return at par for an FHA or VA loan bearing a 4½ per cent rate would be only 4 per cent. This recent offering of United States Treasury 3¼ per cent bonds makes me wonder if a net return of 4 per cent on FHA and VA loans would be a sufficient spread to justify buying such loans at par.

"Don't forget that in addition to a service fee of say, one-half per cent, an institution has its own internal costs of handling a mortgage portfolio, which must be taken into consideration. I have heard some institutions claim that their internal costs run as low as one-eighth of 1 per cent, but I do not take that at face value. I think something close to one-quarter of 1 per cent as the average cost of an institution's internal costs comes closer to the truth. So the increase to 4½ per cent on FHA and VA loans may not necessarily be the answer to your problems or bring about a par market for such loans.

"To emphasize what I'm trying to bring out, there is one other point that will show the type of competition you have today. Recently the Maine Turnpike Authority offered some bonds to refund their presently outstanding obligations and finance the extension of the Turnpike on a 4 per cent basis. Here's a tax exempt bond yielding 4 per cent. Granted it is not the best quality, at least a lot of people say so, it is still 4 per cent on a tax-exempt obligation. The interesting thing is that it was not a howling success. Detroit Edison, which is a AA credit, offered $40,000,000 of bonds on a 3.75 basis. This offering did not go out of the window, either. Now, how do these offerings look competitively, when you consider the nominal cost of servicing or handling bonds as compared with FHA and VA loans which involve the heavy internal costs just mentioned? I won't belabor the point any more—

I just want to bring these factors out for you to see.

"But suppose we take the most optimistic view of the effects of the increase in FHA and VA interest rates to 4½ per cent. It is quite possible that there will be a flurry of building which would result in a substantial volume of mortgages. You have heard predictions of another 1,000,000 of dwelling units this year; and if this flurry should happen it could mean we would end up with more than a million dwelling starts this year. If an increase of the rate to 4½ per cent should result in an unwarranted volume of housing starts, unrelated to effective demand, it would be too bad because it would be a false burst of activity probably followed by a sharp drop which could be painful and cause some hardships. I have no figures to substantiate this, but I believe, in view of the large volume of housing in the last seven years, we may not be too far from the saturation point in housing and may already have reached it in some areas. Also, I have heard some people say that even our industrial capacity may be over-built, particularly so if there is a decrease or stretch-out of our rearmament program, and from what I read it looks as though we are going to have such a decrease or stretch-out regardless of whether or not there is peace in Korea.

"When the saturation point has been reached, I do not believe all building will stop, because I think there will always be some building and some creation of new loans. However, it is my thought that this period of substantially reduced building activity might last for several years until the crop of war babies born in the early '40s begins to grow up and create new families. When that takes place, there will be another wave of building and creation of mortgages.

"It is not my nature to be pessimistic—in other words, I don't believe in just throwing up your hands in horror and giving up. When I see signs of trouble ahead my first reaction is to begin to figure out how to meet it. And now we get to the point of 'getting your house in order now.'

"I am quite sure many of you are already doing many of the things I am going to suggest. But I think it only proper, in order to do a thorough job, that I bring out all the suggestions that come to my mind. For instance, if you have not already done so, I think very careful screening should be made of all new purchasers of homes, to be sure that they have the capacity to meet their mortgage installments and not materially cramp their living standard. You certainly don't want to take on additional collection headaches by careless selection of home buyers.

"Another thing, in the case of VA loans, is that even though the restrictions have now been lifted and you can make 100 per cent loans under the VA, I think it would be unwise to sell homes indiscriminately to veterans with 100 per cent mortgages. On this particular point I have been wondering if it would not be a good policy for an institution to vary the discount prices it would pay for VA loans according to the amount of cash paid in by the veteran at the time he buys the home. This, of course, in addition to the usual screening of the loan on security and ability to carry the loan. That's just a thought, it hasn't jelled yet, but I am sure the same type of thinking has been going through the minds of other institutional mortgage buyers.

"One thing of primary importance which no doubt most of you are already doing is to tighten up on your collection procedures. Actually, you are doing a disservice to the home owner if you let him get into bad paying habits in regard to his mortgage. A tough collection policy, exercised with discretion and understanding, pays dividends, helps the home owner to preserve his home and investment, and in the long run saves the mortgage banker's internal costs. Prompt action is cleaner and cheaper. This is something I can say with assurance, because I began to learn about the handling of mortgages in the 30's and have seen what a timid collection policy can do to an institution's mortgage portfolio.

"This next point touches on a problem that I suppose we have all had in recent years—competent help. There is no need to go into the caliber of help we have been having in recent

>> THEY'RE THINKING OF MBA CONVENTION PLANS: Now that they're installed for the coming year, officers of the Greater Miami MBA are hard at work with local plans for MBA's forthcoming 40th annual Convention in sister city, Miami Beach. Here they are, seated, left to right, vice president, R. B. Roberts, III, The Keyes Company; president, R. C. Houser, Florida Bond & Mortgage Co.; and secretary-treasurer, Henry E. Wolff, Henry E. Wolff Company. Standing, left to right, board members, Frank E. Denton, American Title & Insurance Co.; Bowen Nelson, Nelson Mortgage Company, Inc.; W. L. Randol, National Title Insurance Co.; and Robert S. Kistler, C. W. Kistler Company.

years. However, some progress can be made in bringing about improvement in the efficiency of your help by a lot of patience and understanding, but insistence on effective work by the employee. Generally speaking, if the boss takes the time to try to explain to the clerk why he or she is asked to do a certain job and how important that particular job is to the over-all operation, the employee then is more likely to show some interest in what he or she is doing, and try to give a decent day's work for a day's pay.

"Mechanization, where it can be done profitably, is a very desirable step to take. No doubt most of you have done that already, but perhaps your machines are now out of date and there are more modern machines available that would result in further economies in your operation. On this question of mechanization and simplification, however, I have a feeling that it can sometimes be overdone. For instance, the installation of I.B.M. machines might be OK for one fellow, but not some one else, and is not necessarily the cure-all for every mortgage banker's accounting problems. Try to work out the accounting procedure and get the machines which fit your individual situation and which are most effective and economical for you. And bear in mind that simplification can be carried to a point where you lose control.

Can't Service Less Than Half

"Another practice that has grown up in the mortgage business in the last two or three years, of which I highly disapprove, is the mortgage correspondent offering to service loans on one-family dwellings at one-quarter of 1 per cent or less. I have never approved of this practice and think it should be discontinued. No business arrangement is sound or good unless both parties to the arrangement profit by it. The servicing end of a mortgage correspondent's business should carry itself and preferably should throw off a little profit. I don't see how that can happen if a large volume of any mortgage banker's business is on a servicing arrangement of one-quarter of 1 per cent. Now I am going to stick my neck out. We have accepted a few offerings—not many—of loans with a one-quarter of 1 per cent servicing fee, but when we did it, it was with the thought in the back of our minds that some day the men who sold us those loans will come

to us and say that they cannot survive if they continue servicing loans at a quarter per cent rate.

"Search for other sources of income. Most of you, if not all, have a secondary source of income in your present operation from your commissions on fire insurance and other lines of general insurance. With ingenuity you might find in your respective communities other sources of income which will contribute to the maintenance of a sound operation in your office. One suggestion I have is to give consideration to mortgage redemption insurance as one of the other tools you have in your kit. To me it is a natural round-out of any package that you sell to a home buyer. Statistics have shown that for every home lost due to a fire, there are sixteen homes lost due to the death of the head of the family. However, a lot of you are hesitant to undertake any such operation because you feel that perhaps you will antagonize some of your clients. There is some merit to that objection. But where there's a will there's a way and perhaps some day you will come to realize the value of such an operation and enthusiastically seek to find some way to offer mortgage redemption insurance to your home buyers.

Ask for Statements

"What I am going to say now may not be too popular, but any institutional man should, if he is doing his job right, want a mortgage correspondent to have a profitable operation and should be interested enough to ask for statements which would enable him to find that out. It isn't idle curiosity if a mortgage banker is asked how he is doing—for instance, I don't care what the boss may be taking out of his business in the form of salary, dividends, etc., when I ask for a copy of his auditor's statement. What I am interested in is whether or not his business is making money. Is his servicing carrying itself? Are his profits primarily from originations or some other source? So it would be my suggestion that you should not resent any questions of that kind that may be asked. Very frankly, we have had the satisfaction in the past of pointing out to one or two of our correspondents weaknesses in their operation where they were kidding themselves that they had a sound business when actually, if they hadn't had their origination fees, they would have been losing money. And then we followed through and helped them get their operation on a sound basis."

A group of Detroit mortgage bankers and guests get together for lunch between the morning and afternoon sessions of an all-day Mortgage Clinic sponsored by Detroit MBA. From left, seated, John R. Womer, vice president Great Lakes Mortgage Co., Chicago; Charles H. Sill, co-ordinator of real estate courses at the University of Michigan, Extension Service, which was a co-sponsor of the clinic; Gordon Williamson, president of the Detroit Real Estate Board; Samuel Turner, Irving Franzel and Roland A. Benge, panel members. Standing, James E. Meredith, chairman of the clinic committee; and the following officers of the Detroit MBA: Mel Kingsbury, governor; Alfred F. Taylor, president; Gare B. Reid, governor; Leo F. Drolshagen, governor; Robert A. Taggart, vice president; and Robert J. Hutton, secretary-treasurer.

Some of the Detroit MBA Mortgage Clinic speakers look over the program for their places on the day and evening schedule. Seated, left to right, H. D. Benson, chief appraiser, and Russell H. Harrison, loan guaranty officer, Veterans Administration; D. D. Montgomery, FHA mortgage procedure representative; standing, J. F. Schwerin, chief of VA examination section, and William Stepak, of the Detroit Trust Co., panel moderator.

It appeared to be Texas MBA's largest convention. And to label it a Texas meeting is, as it has been for several years, a misnomer. Registrations were from all over the country with a good supply of investors noted on the lists.

Why MBA Membership Is Valuable *for* LIFE INSURANCE COMPANIES

WHAT is the first question that comes to mind when the suggestion is made to any institution that it join a trade association, such as the Mortgage Bankers Association of America? Isn't it "How would membership benefit us?" That is the natural question and easy to answer if asked by a life insurance company considering membership in MBA.

Mortgages, early in the history of the life insurance industry in this country, played an important part in the investment of policyholders' funds, and as insurance companies have grown, generally speaking, they have followed a policy of investing policyholders' funds in areas where sales of their policies have been made. Mortgages are a logical type of investment to be made with this purpose in mind. As a result, for many years life insurance companies have made mortgages in areas distant from their home offices. Consequently, over the years they have become accustomed to making mortgage loans on a nation-wide basis.

One might ask, "what has this got to do with the Mortgage Bankers Association?" It has a lot to do with the MBA, because the membership of the Association is made up of people engaged in the mortgage business from all parts of the country, originating and servicing mortgages for local institutions as well as institutions in other parts of the country. Since that is the case, a membership in the MBA would enable the mortgage man of a life insurance company to make contact easily with men engaged in the mortgage business from all parts of the country.

Perhaps the best way to illustrate the advantages to a life insurance company of membership in the MBA, would be to list them as follows, although these points are not necessarily listed in order of importance:

» Attendance at MBA Conventions and regional meetings gives the home office mortgage representative of a life insurance company the opportunity to meet with mortgage men from all sections of the country, as already mentioned, exchange information, get new ideas and discuss mutual problems. What better sounding board or source of information could one find to learn what is going on in the mortgage business than a meeting attended by leaders in the mortgage business from all over the country?

» Attendance at conventions and regional meetings of the MBA also serves as a common meeting place with mortgage correspondents a life insurance company may already have, thus saving a considerable amount of travel.

» Attendance at such meetings also makes it easier to find competent mortgage correspondents in new areas, if a life insurance company wishes to expand its mortgage activity.

» Another purpose served by MBA Conventions, in many ways hard to measure, is to provide the life insurance mortgage officer with another reason to leave his office for a few days. It is so easy for an institutional man to get into a rut when he lets himself become wedded to his desk. A membership in the MBA, in a sense, gives an added incentive to attend conventions and keep from getting into a rut. A few days away from the office routine is stimulating to the imagination and helps to work toward effective, imaginative management.

» The Clinics and Seminars sponsored by the MBA are ideal places for a life insurance company to send potentially valuable men for training in the techniques of handling mortgages. These Clinics and Seminars are conducted under the auspices of some of the outstanding Universities in the country, such as, New York University in New York City, Northwestern University in Chicago, and Stanford University in Stanford, California. The courses, conducted by competent experienced men, are practical and informative and a great deal of information is concentrated into a relatively short time.

» The Washington News Letter,

By THOMAS E. LOVEJOY, JR.

President, The Manhattan Life Insurance Company

Another in the series of articles about the advantages which MBA membership has for the various classes of institutions with an interest in the mortgage industry.

issued periodically from the Washington, D. C., office of the MBA, brings up-to-date news of developments in the business. It promptly brings to the attention of MBA members new laws affecting building and mortgages, and new rulings or other activities of the VA and the FHA. Frequently, the laws and regulations are couched in legal language. The Washington News Letter translates such matters into easily understandable layman's language. Many people have said that the Washington News Letter alone is many times worth the membership fee. Certainly such letters could be of great value to a life insurance company.

›› THE MORTGAGE BANKER, the monthly magazine published by the MBA, is another informative and instructive service rendered by the Association. The magazine contains articles written by leaders in the industry on various phases of the mortgage business, new techniques for servicing, and so on. Also, there are from time to time articles on trends in the mortgage business, the money market in relation to mortgages, and other economic factors affecting mortgages. Consequently, the magazine has considerable educational value for the personnel of any life insurance company's mortgage department. Perhaps it could be said that the magazine is worth many times the membership fee.

›› The staff of the MBA in its office in Chicago is well trained and competent. They are very anxious at all times to be of assistance to any member of the Association in securing information or clarifying any problem that might be brought to their attention by a member. The same can be said for the staff of the Washington Office. This service undoubtedly can be of value to a life insurance company.

›› The purpose of the MBA is to strive for high standards of business practices in the mortgage business, and its approach to any problem is statesmanlike. The Board of Governors is composed of men engaged in all phases of the business — originators and servicers of mortgages, representatives of life insurance companies, savings banks, and title companies. All subjects brought up for discussion, as a consequence, have the benefit of the thinking of men who approach the mortgage business from all phases, and the resulting conclusion, if any is required, is the result of a balanced approach.

There may be other advantages, not touched on here, that a life insurance company might find as a member of the MBA, but perhaps these points will in part answer the question: "what benefit will we, a life insurance company, receive from membership in the Mortgage Bankers Association?"

Urges Intensive Drive for More New Members

The observation was made recently that MBA membership has more appeal at this time than it has ever had in the past—for every type of institution with whatever interest it has in the mortgage industry. Basis for the conclusion was that our industry, along with others, is moving into new times which bring with them new conditions to face and new problems to solve; and that MBA is adjusting its planning and thinking to meet these conditions. And, says Robert Tharpe, this year's Membership Chairman, it will pay dividends for all committee members to utilize the last three months of this Association year ending August 31 to see that no eligible prospect in his area is overlooked.

Results of the drive so far have been excellent. Total membership now stands at 1923 as against 1770 a year ago. So far this year 147 have been admitted as compared with 134 in the same period last year. Actually the increase this year would be considerably larger had every application been accepted. Rejections have been heavy this year, largely because the applicant had not been in business long enough to meet Association requirements or is not engaged in actual lending to a sufficient extent. Applications have been carefully screened by the Membership Qualifications Committee and admission has only been after rigid examination.

New members admitted include:

FLORIDA—*Key West:* Stockton, Whatley, Davin & Company, 14 Sigsbee Road, Claude Spear.

LOUISIANA — *New Orleans:* Duke, Porterie & Davison, attorneys, 1206 American Bank Building. *Shreveport:* Tucker, Bronson & Martin, attorneys, 901 Commercial Building, Robert McL. Jeter, Jr.

MASSACHUSETTS—*Lee:* Lee Savings Bank, 25 Main Street, Albert N. Nettleton, treasurer.

MINNESOTA—*Minneapolis:* Strong, Strong and Tully, 600 Midland Bank Bldg., Harlan B. Strong.

NEW YORK—*Binghamton:* Hinman, Howard & Kattell, 724 Security Mutual Bldg., A. Lawrence Abrams, partner.

OHIO—*Cleveland:* Louisville Title Insurance Co., 1733 Standard Building, M. S. Hewgley.

OREGON—*Portland:* Graham Killam Co., 1712 N.E. Sandy Boulevard, Graham Killam.

SOUTH CAROLINA—*Columbia:* August Kohn and Company, Inc., 1001 Barringer Building, Julian H. Henning, president.

TEXAS—*Dallas:* Scurry, Scurry and Pace, attorneys, 525 Mercantile Bank Building, W. C. Scurry; *Fort Worth:* J. G. Clark, Nowlin & Henry, 209 West 8th Street, P. D. Henry.

VIRGINIA—*Newport News:* Hudgins, Colonna & Garnett, Law Building, F. Gordon Hudgins; Jones, Blechman, Woltz & Kelly, 305 Melson Building, F. O. Blechman; *Norfolk:* Bertram S. Nusbaum, attorney, 420 Boyster Building; *Richmond:* David C. Rice, attorney, 520 Mutual Building.

CONVENTION TRIP PLUS

Your 1953 Convention Committee has arranged all sorts of interesting side trips to take after the meeting. If you failed to see the folder describing them, write the national office at once. See as much as possible of this interesting part of the world.

BUSINESS OUTLOOK

(Continued from page 13)

tors introducing more stringent underwriting standards on conventional loans with a tendency toward reduced loan ratios and shorter terms.

In his future operations a mortgage correspondent in these times should make every effort to obtain the type of loans that will be most acceptable to his institutional lenders. With the tightening money market, it is going to be easy to quote rates and terms on mortgage loans which borrowers will accept. On FHA loans currently submitted to us, for example, I have noticed that in most instances the borrowers have sufficient income to make higher monthly payments than are generally required. There should be little difficulty, therefore, in shortening the term on most mortgages provided the loan correspondents will take the initiative in doing so. Obviously there will be pressure brought by builders and by borrowers to obtain the lowest down payments and the longest terms possible. However, if money is not available on that basis I do not think you will lose much business by quoting rates, down payments and terms that will be acceptable to your principals. Actually a smaller volume of mortgage loans today but ones that are better underwritten may in fact turn out to be advantageous to all concerned. Loans that have larger initial equities and faster repayment schedules will be the ones that will require less trouble and expense to service in the future. Also the investors may be more willing to scale down payments on such loans when we encounter periods of economic distress, thus preserving your servicing income when you may really need it.

In summary and conclusion, let me repeat that the outlook for the money market is one of continued tightness. We have experienced a fundamental change in interest rates as a free money market has been reestablished. For the next few months at least there appears nothing in sight that can produce any easing of rates and probably the long-term trend will be toward higher rates also. There appears still further rate increases to be made in the corporate and municipal bond markets and mortgage rates in particular must move considerably higher to bring them into line with available yields on other long-term investments.

With this outlook, my advice to mortgage bankers is to be conservative in the period ahead. Even with the modest increase in FHA and GI rates, mortgage bankers should be extremely cautious in making commitments to builders and others for such loans. By all means, they should be sure that any commitments they make are covered by firm commitments from permanent investors to buy the loans when they are ready for closing. Mortgage bankers should strive harder to write their loans on a pattern of rates and terms that you think will be attractive to your institutional investors, bearing in mind other types of investments are likely to carry higher rates during the period immediately ahead. This involves seeking higher rates and shorter terms on all mortgage loans and on conventional loans writing in stronger prepayment restrictions and penalties.

If the mortgage bankers who are on the firing line will do their part there will be a good market for mortgage loans with life insurance companies and other institutional investors. This is especially true for conventional loans. Merely because mortgage loans do not appear attractive in today's market does not mean insurance companies and others will permanently withdraw from the mortgage market. Those of us who have been aggressive in making mortgage loans in the post-war period are quite happy about our position today since we are receiving substantial principal payments on our mortgage loan portfolios which enable us to take advantage of the current higher rates for reinvesting these funds. Incidentally, it is especially gratifying in a period of this kind to some of us who have long argued we would have greater liquidity in our mortgage loan portfolio than in any other type of investment.

With this background most of us want to stay in the mortgage market but to do so we obviously are going to need a return from mortgages that is attractive in relation to other investments. If mortgage bankers can produce and offer loans on this basis, they may expect that life insurance companies will gradually allocate more funds to mortgage loans.

Birmingham MBA adopted a resolution commending the appointment of **Guy T. O. Hollyday** as FHA Commissioner . . . "this Association does extend to Commissioner Hollyday its hearty congratulations upon his appointment and expresses its confidence in his ability to perform his new duties properly and efficiently . . . and recognizes that Commissioner Hollyday is making a great sacrifice in order to perform a greatly needed service to all members of the mortgage banking industry, building contractors, the real estate industry and to the general public of America, and the Mortgage Bankers Association of Birmingham appreciates his efforts in this connection. . . ."

C. L. Hassmann resigned as vice president of Pringle-Hurd & Co., Inc., New York to become manager of the mortgage loan department of Commonwealth Life Insurance Company, Louisville. . . . **Conrad J. Sutherland** has been elected a vice president of Pringle-Hurd & Co., Inc. Mr. Sutherland for five years was chief of the mortgage department of the New York Loan Agency of the RFC Mortgage Company. He subsequently became counsel for RFC Mortgage Company in charge of mortgage and real estate activities in the New York area, counsel for FNMA in New York and finally special sales representative of FNMA in charge of sales with his office in New York. He is a native of New York and a graduate of Princeton and Brooklyn Law School.

Norris, Beggs & Simpson, Portland, Ore., announce that **Clyde M. Buettner,** formerly associated with the Midwest Stock Exchange and Dovenmuehle, Inc. in Chicago, has been appointed production manager of commercial mortgages. **Horace G. Porter** with experience in residential sales, appraising and finance, has joined the firm as a residential financing specialist.

William K. Allen, Birmingham, was elected "Insuror of the Year" by the Alabama Association of Insurance Agents . . . he's a partner in the firm of Cobbs, Allen & Hall. . . . **William V. Russell,** former mortgage loan manager of Gilpin, Van Trump and Montgomery, Inc., Wilmington, Del. for the past seven years, has formed Russell Mortgage Co. in Wilmington. . . . **Harold J. Funk** has been elected vice president and general manager of Builders Acceptance Company, subsidiary of Harnischfeger Corporation, Milwaukee. . . . Before joining Harnischfeger in 1946, Funk was an auditor for the Chicago office of RFC. He was graduated from Marquette University in 1937.

Founder's Day was observed in all offices of Bank of America throughout the world. It was the 83rd anniversary of the birth of A. P. Giannini, founder of Bank of America, which opened for business in 1904 in one small office in San Francisco, and now has 540 branches and total assets in excess of eight billion dollars.

Andrew D. Wilson, assistant secretary, Dime Savings Bank of Brooklyn, and **James M. Reinhardt,** vice president, J. A. Markel Co., have been named to the board of governors of the New York MBA for three-year terms, Harry M. Huter, Association president announced . . . The Moss-Rouse Company, Baltimore, has moved to a new building . . . **C. Armel Nutter,** president, Nutter Mortgage Service, is busy these days as chairman of the 1953 Annual Support Drive of Cooper Hospital in Camden.

Directors of The Manhattan Life Insurance Company elected **Ralph P. Schaberg** treasurer. He started with the Company in 1923 and after discharge from the service in November 1945, rejoined The Manhattan Life as mortgage loan representative.

William G. Hodupp, has been named executive vice president in charge of operations of Gill Associates, Inc., Toledo, Ohio. He was formerly associated with Franklin Mortgage & Title Insurance Co., Newark, as treasurer and secretary, and more recently was assistant vice president of the Southern Finance Corporation of Augusta, Georgia, which was active in arranging housing financing in connection with the Atomic Energy Commission H-bomb project in nearby South Carolina.

Servicing Director's Itinerary of Calls

Would you like to know if your organization is operating efficiently? W. James Metz, MBA's Director of Accounting and Servicing, spends almost all of his time advising members how they can operate their companies *more efficiently.*

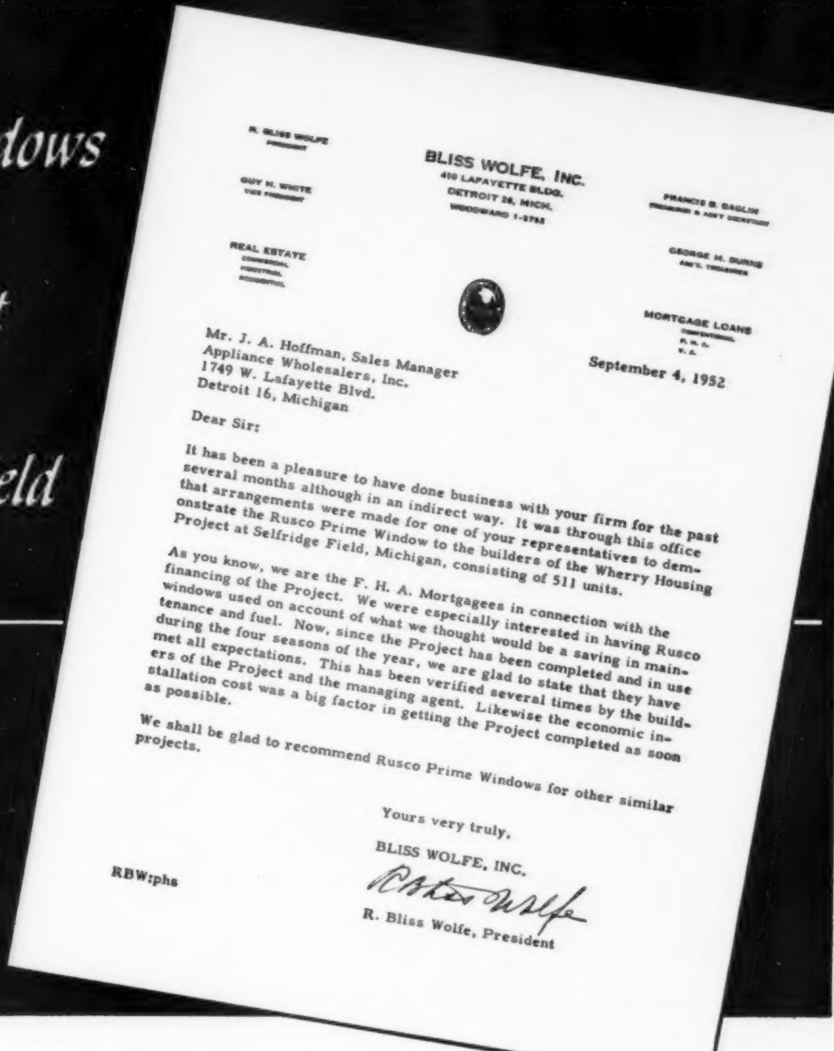
He is now planning to visit members in the following areas:

July 20-21 in Sioux City, Iowa; July 22-27 in Omaha; July 28-29 in Denver; and July 30-31 in Salt Lake City.

August 3-7 in Seattle; August 10-11 in Tacoma; August 12-14 in Portland; August 17-21 in San Francisco; August 24-25 in Phoenix; and August 26-27 in Lubbock, Texas.

If he is going to be in your city, or if your city is not listed on his itinerary and you would like to benefit from his ideas and experiences on streamlining your mortgage servicing and accounting operations, a personal visit can be arranged. A revisit to the western part of the country will not be made until mid-1954. If you'd like to arrange a consultation in your office write immediately to George H. Patterson, Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2.

Rusco Prime Windows Prove Their Merit on Selfridge Field Buildings



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September 4, 1952

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It has been a pleasure to have done business with your firm for the past several months although in an indirect way. It was through this office that arrangements were made for one of your representatives to demonstrate the Rusco Prime Window to the builders of the Wherry Housing Project at Selfridge Field, Michigan, consisting of 511 units.

As you know, we are the F. H. A. Mortgagees in connection with the financing of the Project. We were especially interested in having Rusco windows used on account of what we thought would be a saving in maintenance and fuel. Now, since the Project has been completed and in use during the four seasons of the year, we are glad to state that they have met all expectations. This has been verified several times by the builders of the Project and the managing agent. Likewise the economic installation cost was a big factor in getting the Project completed as soon as possible.

We shall be glad to recommend Rusco Prime Windows for other similar projects.

Yours very truly,

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